

006098

JPRS-CEA-85-087

27 September 1985

# China Report

ECONOMIC AFFAIRS

19980831 095

DTIC QUALITY INSPECTED 3

**FBIS**

FOREIGN BROADCAST INFORMATION SERVICE

REPRODUCED BY  
NATIONAL TECHNICAL  
INFORMATION SERVICE  
U.S. DEPARTMENT OF COMMERCE  
SPRINGFIELD, VA. 22161

1  
153  
A08

#### NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

#### PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

27 September 1985

## CHINA REPORT

### ECONOMIC AFFAIRS

#### CONTENTS

##### PEOPLE'S REPUBLIC OF CHINA

##### NATIONAL POLICY AND ISSUES

Change in Economic Development, Structure Discussed (Liu Guoguang; SHIJIE JINGJI DAOBAO, 26 Aug 85) .....	1
PRC Journal on Socialist State's Economic Functions (Wang Aizhu; JINGJI YANJIU, No 7, 20 Jul 85) .....	5
State Council Circular on Consolidating Firms (XINHUA, 25 Aug 85) .....	17
JINGJI RIBAO on Invigorating Larger Enterprises (Editorial; JINGJI RIBAO, 13 Aug 85) .....	21
GUANGMING RIBAO Defends Engels' Scientific Socialism (Li Zhongshang; GUANGMING RIBAO, 14 Aug 85) .....	24
GUANGMING RIBAO on Controlling Scale of Investment (Jing Zongxian, Liu Huiyong; GUANGMING RIBAO, 17 Aug 85) .	29
GUANGMING RIBAO on Macroscopic Control Over Investment (Wang Jiachun; GUANGMING RIBAO, 17 Aug 85) .....	31
GUANGMING RIBAO on Characteristics of Value of Law (Deng Jiarong; GUANGMING RIBAO, 10 Aug 85) .....	36
New Approach To National Income Division Discussed (Dong Jibin; JINGJI KEXUE, No 1, 20 Feb 85) .....	39
15 Economic Laws, Regulations Promulgated in 1985 (XINHUA, 12 Sep 85) .....	47

## PROVINCIAL AFFAIRS

Henan Governor Reviews Economic Situation (Henan Provincial Service, 24 Aug 85) .....	48
Yunnan Government Arranges Economic Work (Yunnan Provincial Service, 4 Sep 85) .....	49
Better Off Peasants Helping Poorer Neighbors (Xu Yidao; XINHUA, 6 Sep 85) .....	51
Briefs	
Jiangxi Industrial General Survey	53
Jiangxi Land Management Committee	53
Tianjin Rural Economy	53

## ECONOMIC DEVELOPMENT ZONES

Briefs	
Haikou Imports Equipment	54
Hainan's Import, Export Volume	54
Fujian Joint Ventures	54

## ECONOMIC PLANNING

Hubei Official on Plan Implementation for First Half of 1985 (Hubei Provincial Service, 10 Sep 85) .....	55
Hunan People's Congress Meeting Hears Economic Reports (Hunan Provincial Service, 4 Sep 85) .....	57
Shandong Conference on Technical Transformation Projects (DAZHONG RIBAO, 9 Aug 85) .....	58
Development Plans Being Drawn Up for Beijing (XINHUA, 12 Sep 85) .....	60

## AGGREGATE ECONOMIC DATA

Rapid Growth Makes Economic Structure 'More Rational' (XINHUA, 13 Sep 85) .....	61
--	----

## ECONOMIC MANAGEMENT

Guangzhou Strengthens Control of Commodity Prices (Guangdong Provincial Service, 11 Sep 85) .....	62
--	----

## FINANCE AND BANKING

Questions on Gross National Product Answered (Min Zhongyuan; SHANGHAI KUAIJI, No 6, 25 Jun 85) .....	63
---	----



Views on Encouraging Individual Consumption Discussed (Zhang Jianwen; SHANXI CAIJING XUEYUAN XUEBAO, No 3, Jun 85)	67
Timber Price Reform Probed (Tan Guangqing; JIAGE LILUN YU SHIJIAN, No 3, 20 May 85)....	73
INDUSTRY	
Changing Focus of Nuclear Industry (Li Yingxiang, Guan Zhihong; JINGJI GUANLI, No 7, 5 Jul 85)	79
Shaanxi Meeting Stresses Industrial Economic Results (Shaanxi Provincial Service, 25 Aug 85) .....	87
Plastic Goods Production Doubles in 5 Years (XINHUA, 6 Sep 85) .....	88
DOMESTIC TRADE	
Yunnan, Heilongjiang To Establish Economic, Technological Relations (Yunnan Provincial Service, 21 Aug 85) .....	90
Forum Discusses Exploitation of Chang Jiang Basin Economy (Zong Shen; CHANGJIANG RIBAO, 26 Aug 85) .....	92
Briefs	
Hebei Economic Cooperation Meeting	95
First, Third-Line Cooperation Meeting	95
FOREIGN TRADE AND INVESTMENT	
Swedish Institute Teaching Market Economy Principles (Gunnar Filseth; SVENSKA DAGBLADET, 28 Jul 85) .....	96
Sino-Swedish Pharmaceutical Firm Adjusts to New Freedom (Dag Bjerke; SVENSKA DAGBLADET, 28 Jul 85) .....	99
Liaoning: Jinzhou International Trade Symposium Open (Liaoning Provincial Service, 5 Sep 85) .....	102
Heilongjiang Foreign Economic Cooperation Meeting Ends (Heilongjiang Provincial Service, 5 Sep 85) .....	103
Zhejiang To Conduct Joint Venture in Western Samoa's Forests (ZHONGGUO XINWEN SHE, 5 Sep 85) .....	104
Henan Convenes Forum on Trade With USSR, East Europe (Henan Provincial Service, 19 Aug 85) .....	105
Foreign Investors' Questions Answered (Dong Shizhong; GUOJI MAOYI, No 7, 27 Jul 85) .....	106
Prospects for Trade With Eastern Europe Discussed (GUOJI SHANGBAO, 8 Jul 85) .....	109

Prospects for Exports of Agricultural Machinery (Bao Nairen, Zhou Lianqing; GUOJI MAOYI, No 7, 27 Jul 85) ..	112
---	-----

#### Briefs

U.S. Equipment in Heilongjiang	116
Sino-U.S. Joint Venture	116
Liaoning Foreign Trade Conference	116
Guizhou Stone-Laying Ceremony	117
Guizhou International Cooperation Talks	117
Hebei Foreign Fund Utilization	117
Hebei Joint-Venture Hotel	118
Heilongjiang Foreign Investment	118
Liaoning Foreign Capital	118
Jilin Foreign Trade	118
Guizhou Cooperation, Trade Talks	118
Beijing Foreign Tourists	119
Beijing Foreign Contracts	119
Jiangsu Tractor Export	119
Jiangxi Tourist Industry	119
Shanghai Foreign Trade	119

#### SPECIAL ECONOMIC ZONES

Shenzhen Cracks Fraud Cases Involving Hong Kong Businessmen (ZHONGGUO XINWEN SHE, 23 Aug 85) .....	120
Present Conditions of Special Economic Zones Analyzed (Tang Hua, Hu Junkai; LIAOWANG, No 34, 26 Aug 85) .....	122
Shantou Economic Zone Forms Think Tank for Development (Guangdong Provincial Service, 22 Aug 85) .....	128
Briefs	
Shantou SEZ Makes Progress	129
Guangdong's Shenzhen Development	129

#### TRANSPORTATION

Electrification of Chengdu-Chongqing Railway Reported (Feng Jinzhu; TIEDAO ZHISHI, No 2, 28 Mar 85) .....	130
Development of Yingtan-Ziamen Railway Reported (Cai Shaoyuan; TIEDAO ZHISHI, No 2, 28 Mar 85) .....	134

#### TAIWAN

Disparity on Foreign, Local Investment Noted (CHINA POST, 26 Aug 85) .....	140
---	-----

## HONG KONG MEDIA ON CHINA

Foreign Banks Offer PRC Loans at 'Below Cost' Rates  
(Olivia Sin; SOUTH CHINA MORNING POST, 20 Aug 85) ..... 141

Hong Kong Becomes Shanghai's Largest Joint Venture Partner  
(M. F, Lock; HONG KONG STANDARD, 30 Aug 85) ..... 144

## HONG KONG ECONOMIC TRENDS

Hong Kong Airline Denied Right To Operate Chartered Flights to PRC  
(SOUTH CHINA MORNING POST, 19 Aug 85) ..... 146

NATIONAL POLICY AND ISSUES

CHANGE IN ECONOMIC DEVELOPMENT, STRUCTURE DISCUSSED

HK101329 Shanghai SHIJIE JINGJI DAobao in Chinese 26 Aug 85 p 3

[Article by Liu Guoguang [0491 0948 0342]: "A Brief Discussion on the Change in Two Patterns"]

[Text] Since late 1978, under the guidance of the ideological line of "emancipating people's minds and seeking truth from facts," initiated by Comrade Deng Xiaoping, and of the resolutions of the two third plenary sessions (December 1978 and October 1984) of the CPC Central Committee and the series of principles and policies formulated by the party central leadership, economic life in our country has experienced profound changes in many aspects. These changes may be summarized into the changes of two major patterns, namely, the pattern of development and the pattern of economic structure.

The Change in the Pattern of Economic Development

The pattern of economic development includes the objectives, the methods, the key points, and lines of economic development. Before the 3d Plenary Session of the 11th CPC Central Committee, the main target of our economic development was to seek a high economic growth rate. Thus, economic development was not based on an overall balance. Priority was given to the development of heavy industry, and efforts were mainly made to build more plants and machines rather than enhancing technologies. This pattern of economic development was established against a certain historical background, but it brought many problems to economic life: On the one hand, the excessive accumulation blocked increased consumption; on the other hand, the increase in investment stimulated increased demand and repeatedly caused a situation in which total social demand exceeded total social supply. This state of affairs impeded the improvement of economic results for a long time, and the improvement of the people's livelihood was not commensurate with the great efforts they made in construction. That was the reason our socialist economic development over the first 30 years of the People's Republic, though marked by great achievements, experienced many twists and turns and was not satisfactory.

In recent years, the pattern of economic development has begun to change. First of all, the target of development is no longer merely to seek a high growth rate; instead, economic development is now based on the premise of

improving economic efficiency and the people's livelihood. Corresponding to this, the mode of development is a balanced one, with priority being given to some weak links, such as agriculture, transport, energy, science and technology, and education. At the same time, economic development relies mainly on the enhancement of technology rather than the expansion of production capacity. That is to say, efforts have been made to ensure an appropriate growth rate, reasonable ratios between various economic sectors, and good economic results in the course of economic development. To achieve this purpose, we have readjusted the ratio of accumulation to consumption and tried to maintain a situation in which total supply is slightly greater than total demand so as to ensure the sustained, steady, and well-coordinated development of the national economy.

### The Change in the Pattern of Economic Structure

The pattern of economic structure in general includes the structures of ownership, decisionmaking authority, motivation and interests, economic regulation, and economic organization. In the past, the economic structure was basically a highly centralized form of planned economy based on the distribution of materials by the authorities. Speaking more concretely, the structure of ownership was marked by the tendency to enlarge the scale of public ownership and to exclude other ownership forms; decisionmaking authority was excessively centralized in the hands of state institutions; motivation was created merely by means of political and ideological agitation; the structure of economic interests was marked by the practice of "eating from the same big pot"; economic regulation was carried out merely by means of administrative instructions; and as for economic organization, enterprises were managed as administrative units by the government and economic relations were mainly vertical, with many barriers between departments and between localities. This old structure was also established against the background of certain historical conditions. It held back the initiative of enterprises and workers, thus affecting the improvement of microeconomic results; on the other hand, it caused the macroeconomic situation to be out of control by causing excessive expansion of total demand and budget deficits. It constituted another major reason for the poor performance of our economy in the first 30 years.

In recent years, from the rural reforms to the reform of the urban economic structure, the essence of all changes is to replace the centralized planned economic pattern, based on the distribution of materials, by another form of planned economy based on commodity exchange. In these changes, the "large-scale and all-embracing" public ownership system has given way to a new structure which includes various ownership forms with public ownership as the main body; the exclusive state decisionmaking authority has become a multitiered decisionmaking structure in which the state, the enterprise, and the individual all have to be responsible for some decisionmaking; motivation for work is no longer generated merely by ideological education but is also ensured by material interests; economic levers have replaced administrative orders as the main means of economic regulation; and the situation in which barriers existed between departments and between localities and in which economic relations were mainly vertical has given way to a

new structure in which enterprises no longer perform the functions of administrative institutions and economic relations are mainly horizontal. The main purpose of the new economic structure is to bring both motivation and pressure to enterprises, to enliven microeconomic activity, and to properly control the macroeconomic situation. The sound establishment of the new economic structure will not only fully arouse the initiative of enterprises and workers, but will also cure the maladies of swollen investment and disproportion in economic relations caused by the old structure. The new structure will be favorable to the regulation of relations between supply and demand and will provide a favorable environment for the invigoration of the enterprises' activities.

#### The Changes in the Above-Mentioned Two Aspects Are Interrelated and Condition and Affect Each Other

The pattern of economic structure is subordinate to the pattern of economic development. The two aspects condition and affect each other. The pattern of development with a high growth rate as the main target and with extensive development as the main means will inevitably require a highly centralized economic structure in which economic regulation relies mainly on administrative orders; while the pattern of development which aims at meeting various consumption demands and which is based on the improvement of economic results and the enhancement of technology will require an economic structure which is characterized by rather decentralized decisionmaking processes and economic regulation mainly through economic levers. Conversely, the chronic maladies caused by the old economic structure added fuel to the problems in the old pattern of development. Only on the basis of the new economic structure, which brings flexibility to planned control, can the new pattern of development be really established.

Therefore, the two changes in our economic life are closely related to each other and condition and influence each other. It is not realistic to expect that we may complete these changes in a short time, because the changes are a very complicated and tortuous process which takes much time. The inertia of the traditional patterns and conventions, some people's vested interests in the old systems, and the expected uncertainty of the process of change will all affect people's economic actions and will thus affect the changes in the two major patterns.

#### The Economic Reforms Require a More Relaxed Economic Environment in Which Available Supply Slightly Exceeds Total Demand in Society and There Is a Limited Buyers' Market

At present, more and more people have realized that the smooth development of the economic structural reforms requires a rather relaxed economic environment in which total supply slightly exceeds total demand and there is a limited buyers' market. This is a situation which can be created by the new pattern of development. A few years ago, when the pattern of development had just begun to change, with the effective implementation of the principle of economic readjustment, buyers' markets appeared for a time in some fields. However, the tendency to seek high growth rates for output value and to

expand investment to an excessive degree recurred from time to time, and the mechanisms of overall economic management were not adapted to the new situation in which decisionmaking powers were delegated to localities and enterprises and previous restraints on consumption were gradually broken. The buyers' markets have not existed stably and often disappear. In particular, since the fourth quarter of last year, with the rapid increase in total demand and the appearance of a high growth rate in the economy, an overheated and strained situation has been brought back to the national economy. If we know the causes of the problems, we will not become nervous. However, we should realize that twists and turns in the change in the development pattern may affect the change in the economic structure. If we did not have to cope simultaneously with the overheated economic situation and the threat of inflation, we would have advanced in greater strides in the reform of the wage and price systems and in other fields.

At Present, Our Economic Work Should Be Focused on Stabilizing the Economic Situation, and We Should at the Same Time Carry Out Necessary Reforms Within the Capacity of the National Economy

At present, the economic structural reform is an overwhelming task in our country. Many comrades have pointed out that the measures for solving the present economic problems should be favorable to the reform rather than obstructive to the advance of the reform. In the long run, only a thorough reform of the economic structure can solve the problem of the overheated economy which recurs from time to time. This opinion is undoubtedly correct, since the pattern of development and the economic structure condition and influence each other. However, it is certainly not correct to say that we should speed up the pace of reform and advance the overall reform for the time being when we are to stabilize the economy. Before the proper settlement of the present problem in the economy, which is marked by strained supply, advancing economic reforms more rapidly will just add heavier burdens to the national economy. This will not help smooth out economic relations or stabilize the economy, and thus will spoil the reputation of reform and add more obstacles to the reform. In my view, our present economic work should be focused on stabilizing the economic situation, and we should at the same time carry out necessary reforms within the capacity of the national economy so as to consolidate and develop the achievements of reform. We should employ all effective methods to hold down the overheated demands for investment and consumption so as to create a favorable environment for further economic reforms. This will finally accelerate the process of reform and will base our economy on a more solid foundation. The final establishment of the new socialist pattern of economic development and of the new economic structure with Chinese characteristics will inevitably promote our socialist modernization cause more rapidly.

CSO: 4006/937

NATIONAL POLICY AND ISSUES

PRC JOURNAL ON SOCIALIST STATE'S ECONOMIC FUNCTIONS

HK300825 Beijing JINGJI YANJIU in Chinese No 7, 20 Jul 85 pp 40-46

[Article by Wang Aizhu [3769 1947 3796] of the Economics Department of Fudan University: "Some Questions on the Economic Functions of Socialist Countries"]

[Text] The question of how we are to correctly understand and give play to the functions of a socialist state in managing the economy and ensure the harmonized and rapid development of our economy is a major theoretical and practical issue in our country's economic structural reform. People in our country's theoretical circles currently differ in their views concerning the question of whether the state's economic functions are essential functions of the state. They also differ on the questions related to the implications and objective grounds of the state's economic functions, and to questions on the relationships between the state's economic functions and ownership of the means of production. It is imperative to carry out thorough discussions on these questions.

I

Concerning the question of whether economic functions are essential functions of the state, there is one opinion that holds that the state does two things at the same time. As the state must organize and manage the economy and provide political rule, this determines the dual functions of the state in managing the economy and exercising political rule. It also determines the dual forces of the essence of the state, namely, an organ of violence [bao li 2552 0500] and an economic power. Another opinion holds that economic management is not a characteristic specific to the state, that only class functions are the essence of the state, and that the theory of a dual essence whereby the state gives equal weight to management and class functions will inevitably lead to eclecticism. A third opinion holds that in its proper sense, the state does not have any economic function, that what people now mean by the state's economic functions is the fact that the state exercises social economic functions and that when the power of the state withers in the future, its social economic functions will be entirely given back to society. Therefore, the economic functions of the state are a transitional category.



The essence of the state is the dictatorship of one class over another class. This dictatorship means that the ruling class relies on force to exercise its rule. The aim of this rule is to maintain and develop an order that is favorable to the ruling class. In this sense, we can say that economic functions are not essential functions of the state. However, from the viewpoint of human historical development, since the emergence of states, all states, be they slave owner states, feudal states, or bourgeoisie states, inevitably have to intervene in social economic life to some extent in order to consolidate their rule.

Economic management functions emerged in the process of the socialization of production processes. "In any place where the process of direct production is one combined with society and where the process is not the isolated labor of an isolated producer, there will inevitably be a supervision and direction of labor." (Marx: "Das Kapital," vol 3, pp 431, 432, 1975 edition, People's Publishing House) Therefore, exercising economic management is an indispensable function for any social organization. However, the reason certain economic management functions must be undertaken by the state is because the state has to satisfy common needs for the survival of the society under the situation of class antagonism. If the state cannot satisfy these common needs in order to maintaining the survival of the society, it will be impossible for the state itself to survive. Engels said: "From its very origin, all political power is based on certain economic and social functions." (Engels: "Anti-Duhring," "Selected Works of Marx and Engels," vol 3, p 222) No matter where, political rule is always exercised on the basis of the performance of certain social functions. Only when political rule exercises its social functions can it be sustained. Therefore, all states have both political and economic functions. As Marx said: "States have both the function of dealing with the various public affairs that arise based on the nature of the society and the various special functions that arise based on the antithesis between the government and the people." (Marx: "Das Kapital" vol 3, pp 431, 432, 1975 edition, People's Publishing House) However, these two kinds of state functions are not parallel. Class functions are the essence of the state. The social functions are merely means by which the state realizes its class functions. In other words, the state consolidates itself through its social management functions and applies its social management functions to serve its class functions. Therefore, the economic functions are merely the external manifestation of the essence of the state in social economic life.

In all class societies in history, as the means of production are mainly privately controlled, it is impossible for the state to organize social economic construction on a large scale and the state can only carry out limited economic construction within the scope allowed by the existing class struggle. By the time capitalist society developed, as the contradiction between the socialization of production and the private ownership of the means of production became increasingly sharp, the bourgeoisie "state cannot help but undertake the leadership over production." (Engels: "Anti-Duhring," "Selected Works of Marx and Engels," vol 3, p 317) One of the forms of this leadership is that the state directly possesses a part of the means of

production to an organization that maintains the internal conditions of the capitalist mode of production through its direct intervention in the operation of the economy. Therefore, in capitalist countries, particularly developed ones, there is an increasingly intensifying trend of state intervention in social and economic life. In a socialist country, as the state controls the means of production on behalf of the whole people, the state's economic functions are not merely the reaction of the state as a superstructure on the economic base, such as intervention in economic life through economic policies and decrees, but the state directly organizes and manages the economic life of the whole society as an owner of the means of production. Therefore, from a historical point of view, never before have the state functions in managing the economy been as important as they are now in the socialist period or did they play such a tremendous role. Judging by our country's history, in the 30 years plus since the founding of the PRC, the major role of the state in organizing and leading economic construction can be seen to be indispensable in our scoring of the tremendous achievements that were unimaginable for old China.

However, while stressing the economic functions of socialist state, some comrades regard a socialist state as a new type of state that has been turned from a political state into an economic state, or as a state that has switched from a superstructure to an economic base; in other words, socialist states have become economic base states. I think that these views are open to discussion. Lenin once said that a socialist state is not a state in its original conception, but this only means that a proletarian state is no longer a special machine for the minority of people to suppress the majority of people, but is a machine by which the majority, the exploited, suppresses the minority, the exploiters. Lenin called the withering state at a certain stage a nonpolitical state. However, from the viewpoint of the essence of the state, it remains an institute of compulsion--a political institute that can force people to observe the regulations related to rights and interests. When this characteristics of the state disappears, a state will no longer be a state.

The question concerning the implications and characteristics of the concept of the state's economic function is also a much debated question. Some people think that the state's economic functions are precisely a "strict supervision over labor and consumption standards and a "safeguarding of the public ownership of the means of production," [quotation marks as published] and that as the state is a special institute that implements compulsory measures, the state's economic functions are characterized by a certain compulsory intervention. (See Wang Luolin's "On State Ownership and State Economic Functions--study notes for Chapter 5 of 'State and Revolution'" ZHONGGUO JINGJIWENTI [CHINESE ECONOMIC PROBLEMS] No 3, 1984) I think that what Lenin said about the "extremely strict supervision over labor and consumption standards," "the safeguarding of the public ownership of the means of production," and "the safeguarding of the equality of labor and distribution of products" were undoubtedly important aspects of the state's economic functions, but this does not cover all the aspects. Lenin did not logically

prove the economic functions of the state, but raised these issues from the angle of the necessity of having a state to defend bourgeois [word indistinct]. A socialist state as the owner of the means of production or as an agent to exercise the right of ownership over the means of production on behalf of the people functions to organize and lead the state's economic life as a whole and to directly carry out socialist economic construction in addition to its above-mentioned supervisory and defensive functions. Concerning this, Lenin clearly pointed out: "The proletariat needs the state power and the centralized organization of great force and violence not only for the purpose of suppressing the resistance of the exploiters, but also for the purpose of leading the vast number of people, in other words, the peasants, petite bourgeoisie, and semi-proletariat, to 'readjust' the socialist economy." ("State and Revolution," "Selected Works of Lenin," vol 3, p 509) After the October Revolution, Lenin again emphatically pointed out: "After the proletariat's task of seizing the state power is resolved and as the task of depriving exploiters and suppressing their resistance is basically resolved, the fundamental task of creating a socialist economic system that is higher than the capitalist society will be given first priority. This fundamental task is none other than raising labor productivity." (Lenin: "Current Tasks for Soviet State Power," "Selected Works of Lenin" vol 3, p 509) He also pointed out: "After seizing the state power, the proletariat's most important and fundamental interests are to increase the quantity of product and to greatly increase the social productive forces." (The Role and Tasks of Trade Unions Under the Conditions of the New Economic Policies," "Selected Works of Lenin," vol 4, p 586) If the proletariat fails to undertake this task of organizing economic construction and fails to defeat the bourgeoisie in the economic field, it will lose the fruit of its revolution and regress to the old system. Moreover, judging by the practice of various socialist countries, the economic functions of many of them include not only the planning, readjustment, and supervision over the whole national economy, but also the direct organization of daily activities in the operation of their state-owned enterprises, such as production, supply, and sales. In other words, they include all economic activities, both macroeconomic and microeconomic. There are also some countries where the state's economic functions are mainly to strengthen the control over the macroeconomy, leaving the microeconomy to be managed by enterprises on their own.

Is compulsion then a characteristic specific to the economic functions of the state? Yes, the state does have a force of compulsion. Is it, however, a must for the state to adopt compulsory means in exercising its economic functions? Judging by the practices of various socialist countries, there are two kinds of methods for the state in managing the economy: One is an administrative method and the other is an economic method. The difference in the degree of application and combination of these two kinds of methods gives rise to different economic management systems. Managing the economy by administrative methods means organizing and managing economic activities by compulsory methods of issuing instructions and orders level by level from the top downward according to the administrative systems and divisions of departments and areas. Managing the economy by economic methods means mainly applying economic means in organizing economic activities within the spheres of professional and regional economic management and in light of the internal

relations of the economic life, in other words, guiding, controlling, and regulating economic activities based on economic interests and promoting the improvement of the results of economic activities based on economic interests.

Administrative methods of managing the economy are characterized by relying on the authority and power of the upper-level administrative organs, adopting a compulsory method of issuing instructions and orders, and directly supervising and organizing the economic activities of the lower-level departments and even the enterprises. Administrative management is an important means that a socialist state must apply in exercising its functions of managing the economy. A socialist economy is founded on the socialization of production and public ownership of the means of production. Therefore, there should be unified management. Without a certain degree of administrative authority and obedience, it is impossible to realize this unity. As Lenin pointed out: "Socialism is utterly unimaginable without the planned organization of the state which makes millions of people most strictly observe unified standards in the production and distribution of products." (Lenin: "On the Childishness and the Petit Bourgeois Nature of the 'Leftists'," "Collected Works of Lenin," vol 27, p 314) Therefore, it is imperative for the state organs to issue, some administrative orders in light of actual needs, issue mandatory plans to the lower levels, and raise some compulsory requirements in order to organize and lead the development of the national economy in a planned manner. However, while adopting administrative methods, we must also adopt economic methods and should regard economic methods as the major methods for managing the economy. One of the major defects of our country's previous economic management system was to excessively and entirely apply administrative methods in managing our economy and thus fail to satisfactorily act in accordance with objective economic laws. This kind of management method seriously fettered the development of our socialist economy. First, managing the economy merely by administrative methods makes our enterprises obey the orders of the upper-level administrative departments in conducting all their economic activities, seriously constrains the initiative and creativeness of the masses of people, and thus causes our enterprises, which are the cells of the socialist economy, to lose their vitality. It also causes the socialist economy to lack vitality. Second, managing the economy merely by administrative means is apt to give rise to blind commands, subjectivism, and bureaucracy. As a result, little output is gained despite much input and there is great waste, low efficiency, and little benefit for our people. The reason we followed this system in the past is because in theory, we failed to make a distinction between the political and economic functions of the state. The political functions are to solve the problems of the realization of democracy among the people and the problems of a dictatorship versus the resistance. [Words indistinct] are to solve the problem of managing the economy in accordance with objective economic laws. In order to do that, we should regard internal economic relations and economic interests as the principle aspects and mainly rely on economic means in coordinating economic activities. For a long time we failed to make a distinction between these two kinds of functions, regarded economic functions as subordinate to political functions, and performed economic functions by adopting methods to perform political functions, thus giving rise to the malpractice of violating economic laws in managing our

economy. The emergence of this situation was because we failed in theory to realize that the essence a socialist economy is a planned commodity economy on the basis of public ownership. Denying the fact that a socialist economy remains a commodity economy inevitably leads to negating the necessity of acting in accordance with the objective laws of a commodity economy and neglecting giving play to the role of economic levers. "The Decision of the CPC Central Committee on Reform of the Economic Structure" confirms that a socialist economy is a planned commodity economy on the basis of public ownership of the means of production. This provides the most important theoretical ground for changing the economic system of a high degree of centralism and unification that relies merely on administrative means and neglects economic levers and the regulation of market mechanisms, and for enabling our enterprises to operate independently, shoulder sole responsibility for their profits and losses, and have the greatest vitality under the necessary administration, guidance, and regulation of the state. The reform of the economic structure that is being carried out in our country is precisely aimed at switching from the previous economic management system that merely relied on administrative means to a management system that combines economic and administrative means and regards economic means as the principal aspect. This means that in the future we should more frequently apply economic levers such as prices, taxation, and credit; give play to the role of the law of value in regulating our production and circulation; and enable our enterprises to closely combine the pursuit of their own economic interests with the interests of the society as a whole. We will thus strengthen the state's planned management over the entire economy. Therefore, regarding our planning system, we must correct the previous erroneous idea that regards the planned economy as identical with mandatory plans. Carrying out a planned economy does not mean carrying out mandatory plans. Both mandatory plans and guidance plans are concrete forms of our planned economy. Mandatory plans have a binding force on our enterprises and are plans that must be carried out; guidance plans give suggestions about the economic activities of our enterprises, have only administrative binding force, are not compulsory, and are mainly implemented by the application of economic levers. The taxes collected by the state, the prices set by plans, loan ceilings, and the rate of wage increases are all of a mandatory nature and must be strictly observed by the enterprises. They are, however, different from the administrative means of issuing mandatory targets directly to enterprises. Moreover, in order to give play to the effective regulatory role of economic levers, the application of economic levers itself cannot but have some flexibility. Only by so doing can the application of economic levers meet the demands of the complicated and ever-changing economic life and can economic levers thus become an effective means of strengthening our planned management.

## II

Some comrades think that the objective grounds for a socialist state to perform its economic functions is the ownership of the means of production by the socialist state. True, state ownership is indeed the theoretical foundation for the performance of economic functions. In many socialist countries including our own, the state takes on all the economic activities under a

highly centralized management system in which the state owns the means of production and directly manages the economy. But we cannot use this as an argument to prove that state ownership is the only grounds on which the state exercises its economic functions, nor think that negating state ownership means the negation of the state's economic functions.

The reaction of the state as a superstructure on the economic base is also objective grounds for the state to exercise its economic functions. As a constituent part of the social superstructure, the state has an extremely important position in the system of the superstructure. Compared with other parts of the superstructure, the state is more directly and closely linked with the economic base. The state not only directly and in a concentrated way reflects the characteristics and demands of the economic base, but also actively serves the economic base. With the most effective methods and means, the state helps its economic base take shape and develop. It can use its force of compulsion to force people to obey the orders of the ruling class and thus safeguard the economic interests of the ruling class. Of course, as states vary in nature, the role of the state power in economic development differs. Socialist production is socialized mass production established on the basis of the public ownership of the means of production. Therefore, it is even more necessary for a socialist state which can thoroughly embody the interests of the people and reflect their demands to exercise its unified leadership and management over the entire national economy in order to help the economic base of socialism to take shape and develop.

In a socialist society, the socialist state exercises on behalf of the whole people the ownership over the means of production that are owned by the whole people and organizes and leads the whole national economy in a planned manner. However, this constitutes no grounds for us to think that the state can take on all the activities of organizing the economy ranging from macro-economy to microeconomy. One of the important reasons for this is because we confused ownership by the whole people with direct management by state organs. I think that this is because for a long time we had an erroneous view in our theory which regarded state ownership as identical with ownership by the whole people and which held that state ownership was the only form of ownership by the whole people. The comrades who hold this view think that since the means of production are owned by the state, naturally the enterprises should be owned by the state. Correspondingly, the enterprises should be directly managed by the state, the production and management activities of the enterprises must be organized by the state plans in a centralized manner, the production, supplies, and sales of our enterprises must be arranged by the state in a centralized manner and their personnel, material, and financial resources should be allocated by the state in a centralized manner. This means that judging by their names, state-run enterprises should be directly managed by the state. If the state does not directly manage enterprises, it is impossible to embody the relation of the state being the owner of the means of production in our enterprises. However, state ownership is not the only form of the ownership by the whole people. The practice of the state directly managing enterprises is only one pattern of the socialist economy. It is not the only pattern, nor the best one. In the initial



period of the socialist society, the pattern of state ownership of the means of production and direct management of the enterprises played a positive role. However, as social productive forces developed, the defects of the pattern of state organs directly administering and managing enterprises become increasingly clear. Unavoidably, this gave rise to serious subjectivism and bureaucracy, constrained the vitality of our enterprises, and hindered the development of our productive forces. In order to emancipate our productive forces, we must enliven our enterprises and transfer to our enterprises administrative and managerial power. As the "Decision of the CPC Central Committee on Reform of the Economic Structure" pointed out, under the prerequisite of obeying the state's plans and management, an enterprise is empowered to flexibly select diverse methods of management; to plan its own production, supply, and sales activities; to have and dispose of its retained funds; to appoint, dismiss, recruit, and elect its own personnel in accordance with regulations; to independently decide the methods of employing workers and the methods of paying wages and bonuses; and to fix the prices of its products within the range allowed by the state. In short, we should really turn our enterprises into relatively independent economic entities and into socialist commodity producers and operators that are managed independently and shoulder sole responsibility for their profits and losses. By so doing, our socialist ownership by the whole people will in fact be developed and transformed from a form of state ownership under which the state owns, controls, and uses the means of production--in other words, in which the state directly manages the enterprises,--into the form of ownership under which the whole people jointly own, control, and use the means of production. The enterprises under ownership by the whole people having the power to control and use their means of production, in other words, power over their administration and management, not only will not affect the nature of ownership by the whole people, but is also required by the ownership itself. I think that ownership by the whole people has two tiers of meaning. The first tier of meaning is that the people as an integrated whole have the title over the means of production. In the current stage, the socialist state exercises ownership over the means of production on behalf of the whole people. In accordance with the objective requirements of socialized mass production, a socialist state regulates social production in totality, takes all the enterprises as an organic and unified whole, and realizes the links between laborers and the means of production in the scope of the whole society. The second tier is that as a concrete concept or entity, the whole people consists of hundreds and thousands of enterprises, each of which consists of hundreds and thousands laborers; therefore, ownership by the whole people will necessarily be realized in every enterprise in relation to every laborer. Since the whole people are the owners of the means of production, our economic structure should ensure that the masses of people can take part in management. Only when the masters of the ownership by the whole people, in other words, the mental and manual laborers who are engaged in production activities in the enterprises owned by the whole people, can actually jointly control and use their jointly owned means of production and can dispose of the results of their joint labor can the direct combination between direct producers and means of production be realized. If the enterprises as the cells of the economy owned by the whole

people and the laborers as the masters of the ownership by the whole people do not exercise the power of controlling and using the means of production in their enterprises, then this ownership by the whole people will exist only in name and deteriorate. Therefore, letting the various enterprises under ownership by the whole people have power over their administration and management precisely embodies the nature of the ownership of means of production by the whole people and also achieves the objective requirements of ownership by the whole people. At the same time, letting enterprises owned by the whole people have management and administration power does not affect the socialist state as the representative of the whole people in exercising the power of ownership over the means of production. The economic situation often cannot be controlled by the enterprises and the enterprises are often apt to act in light of their own interests. Therefore, a socialist state must make unified plans for its economic development in light of the demands of the whole people and the whole economic situation. In order to make the economic activities of various enterprises meet the requirements of national economic development as a whole, state organs must conduct the necessary management, investigation, guidance, and regulation of enterprises through planned and economical administrative, and legal means; collect from enterprises via taxation the net income that must be used by the state in a centralized manner; and decide on the establishment, closing down, suspension of production, merger, transference, or movements of enterprises. All these are concrete manifestations of the state's exercise of its ownership rights over the means of production on behalf of the people and also provide fundamental conditions that are necessary for ensuring that enterprises develop along a socialist orientation.

From the practice of the economic structural reform in the Soviet Union and Eastern European countries, we can see that in order to do a good job of economic reform, we must first start by readjusting the forms of ownership. The highly centralized economic management system in the Soviet Union is closely related to their long-standing efforts to maintain a highly centralized form of ownership. If the Soviet Union does not start from the readjustment of its ownership, it will be very difficult to solve the problem related to excessive centralism in its management system. Some Eastern European countries have already begun to find a way out in their reform through readjusting their ownership. They stress separating ownership rights from the power over management and are providing theoretical grounds for expanding the decisionmaking power of their enterprises. This developmental trend is worth attaching importance to and studying.

### III

Should we reform the state's economic functions? What is the essence of this reform? People's opinions differ on these questions. One opinion holds that the current economic structural reform in our country is in essence a reform of the method of managing our economy and that the core of this reform is to radically reform the state's economic functions. Another view holds that the economic structural reform is not a reform of the state's economic functions but aims to improve the methods of the state's management of the economy.



For a long time there has been an incorrect understanding concerning the question of the state's economic functions. It holds that the management of the economy by the socialist state means that government organs directly take part in and manage the production and operation of the enterprises and directly supervise the concrete activities related to labor, material, and financial resources, supplies, production, sales, and domestic and foreign trade of the enterprises. This not only hinders giving play to the initiative of the enterprises, but also seriously weakens the government's due role in managing the economy.

The "Decision of the CPC Central Committee on Reform of the Economic Structure" emphatically points out that strengthening the vitality of our enterprises, particularly the vitality of large and medium-sized enterprises owned by the whole people, is the key link of the entire economic structural reform which is focused on urban reform. In order to fill our enterprises with vitality, we should first satisfactorily handle the relations between the state and the enterprises owned by the whole people. In the past, as government functions were not separated from the functions of enterprises, our enterprises, large or small had to act in accordance with the instructions from the upper-level leading organs that they were directly under. Thus our enterprises became subordinate to the administrative organizations at various levels. Therefore, in carrying out the economic structural reform. We must persist in separating government functions from the functions of enterprises, streamlining our administration, and decentralizing power. As the "Decision" points out: "Carrying out reform in accordance with the principle of separating government functions from the functions of enterprises, streamlining our administration, and decentralizing power are an urgent demand for enlivening our enterprises and the whole national economy." Therefore, in this sense we can say that the reform of the state's economic functions is a key issue in our economic structural reform.

Only when we have actually separated government functions from the functions of our enterprises, streamlined our administration, decentralized power and become freed from the rigid pattern that has taken shape for many years can we radically put an end to the harmful practice that fetters the development of our economy. When government functions are separated from the functions of our enterprises, the governments at various levels will be freed from the duty of directly supervising the production and management activities of our enterprises. Then they will be able to concentrate their energy on handling the whole situation, in other words, on organizing and leading the economic construction by proceeding from the all-round situation of the macroeconomy of the trades and areas and correctly giving play to the state organs' functions guiding the economy through economic, administrative, and legal means. This practice of laying aside microeconomic matters and instead concentrating on macroeconomic matters will not weaken but will actually strengthen the state's management of the economy and will create conditions for enlivening our enterprises. In order to streamline our administration and decentralize power, we should transfer power to the enterprises that are engaged in activities of production and business. Our enterprises are directly engaged in production, construction, and commodity circulation and are the principal force for the development of the socialist productive forces and

the progress in economy and technology. Only when we satisfactorily readjust the relationships between the state and enterprises and between the enterprises and their staff and workers through streamlining administration and decentralizing power, establish who are masters of the staff and works in the enterprises; and thus enable our enterprises to really become relatively independent economic entities that have responsibility rights and interest in their production and operations can our enterprises and the whole national economy have vitality. If we regard the national economy as a unified organic whole, our enterprises are the cells of this organic whole. In order to enable our enterprises to be live cells, we must make them relatively independent economic entities. For this purpose we must put an end to the previous practice of the state directly managing the affairs that must be managed by enterprises. Socialist production is socialized mass production, which is a very complicated organic entity. On the one hand, social demands are diverse and ever changing, on the other hand, the labor and production of the workers and staff in various enterprises differ in hundreds and thousands of ways and constantly change. Under such a situation, it is utterly impossible for the state to directly plan the activities of hundreds of thousands of enterprises and define the relationships between the production, supply, sales, and other links in these enterprises. Therefore, we must carry out a reform of our state's highly centralized management system. The key to this reform is the decentralization of power. However, the decentralization must be an actual decentralization of economic power. In other words, the power of production, operations, and management related to labor, finance, materials, and goods and to production, supply, and sales that must be put in the hands of the enterprises is transferred to our enterprises and thus enables our enterprises to have the power indispensable for their daily activities and operation. We should not merely decentralize administrative power. In other words, we should not simply transfer to lower-level government departments some of the management power of the upper-level government department. In the past our country transferred power downward several times, but this was a practice of decentralizing administrative power. The result was that some power was transferred between the government departments at different levels and thus made enterprises switch from being subordinate to central government departments to being subordinate to local government departments. This practice not only could not radically solve the critical problem of the confusion between the functions of government and enterprises and the lack of vitality in our enterprises, but also weakened the central government organs' role as important readjusters and gave rise to the phenomena of localities each doing things in their own way and blocking each other. As a result, we were forced to centralize the power again. In this way, in several decades in the past, a cyclic phenomena emerged of centralization and decentralization in our country's management system. Our historical experience has proved that any reform that does not reform the state's economic functions and fails to solve the fundamental problems of separating the functions of government and enterprises and enlivening enterprises, but only focuses on the redistribution of administrative power, is hopeless. This is because there are only two methods to organize the economy according to the administrative systems: the first is to adopt the principle of management by departments and put enterprises under the jurisdiction of government administrative organs. This gives rise to an economic

system that is organized in accordance with the principle of management by departments. The other is to adopt the principle of management by areas and put enterprises under the jurisdiction of local government administrative organs. This gives rise to the economic system that is organized in accordance with the principle of management by areas. Organizing the economy in accordance with either of the above two principles artificially severs and surpasses the economic relations of the department or the area, gives rise to the division between areas and departments and to departmental or local systems that are isolated from one another. Therefore, if we only abolish the functions of the central government in managing the enterprises but allow the provincial governments to directly manage enterprises and if we do not put an end to the old pattern of government organs directly managing enterprises, then this "decentralization" will only give rise to a change from management by departments to management by areas or will only cut big areas into small ones. Of course, this kind of reform in decentralizing administrative power will never bring any positive results. The key to solving the problem is to carry out a decentralization of economic power. In other words, we should transfer to our enterprises the power to directly organize their production and operations and thus enable our enterprises to have decisionmaking power over their production, supply, and sales. This decisionmaking power is the core of the power of the enterprises and the key to enlivening our enterprises. The "Decision" clearly points out: "In the future, in principle, the government departments at various levels must no longer directly administer or manage any enterprise." Of course, this does not negate the fact that the relationship between the state and enterprises continues to be one of state leading the enterprises. From the point of view of the all-round situation, the state decides the strategic goal and key links, the principles and policies, and other major policy decisions concerning the development of the whole economy and sets the major proportion and comprehensive balance of the national economy. It is the state that applies the means of economic readjustment and legal means. All the major aspects of the economic activities of our enterprises are carried out under the guidance of the state's decrees, plans, and policies. All the above is a major embodiment of the functions of the socialist state in organizing and managing the economy. Moreover, the "Decision" also clearly stipulates that the governments at various levels must function to serve our enterprises and the basic level. This will certainly promote the rapid development of our socialist economy.

CSO: 4006/922

NATIONAL POLICY AND ISSUES

STATE COUNCIL CIRCULAR ON CONSOLIDATING FIRMS

OW311401 Beijing XINHUA Domestic Service in Chinese 1255 GMT 25 Aug 85

[Text] Beijing, 25 Aug (XINHUA)--On 20 August the State Council issued a circular to various localities and departments on further examining and consolidating companies.

The main contents of the circular are:

In the course of enlivening the economy, companies of different types and sizes have been set up in various localities. Generally speaking, quite a few companies are well run and playing a positive role in promoting production and stimulating circulation. However, because of the imperfect legal system and inadequate management work, there exist quite a few problems, notably that of the functions of government and enterprise not being separated and that of illegal business activities. These problems have not only affected the healthy development of the companies themselves, but have also obstructed the smooth progress of the reform of the economic structure. We must solve them earnestly.

Since last year, the various localities and relevant departments have, in line with the guidelines of the relevant documents issued by the CPC Central Committee and the State Council, begun to examine and consolidate companies and have scored some achievements. However, some localities and departments have not paid adequate attention to this work and made slow progress. To further implement the instruction of the CPC Central Committee and the State Council on conducting a general examination and consolidation among enterprises of all types, the following circular is issued concerning relevant problems:

1. The principle of separating the functions of government and enterprise must be implemented. A company is an economic entity engaged in production, business, or services and has the status of a legal person. It is an enterprise which practices independent accounting, assumes sole responsibility for its profits and losses, pays tax in accordance with regulations, and assumes economic responsibilities. As for companies set up by party or government organs or by cadres of such organs, it is necessary to separate the functions of government and enterprise and make the company sever its economic relations with the party or government organ concerned. Party or

government cadres who hold concurrent jobs in a company must resign one of these jobs, that is, either the concurrent job in the company or the job in the party or government organ. An administrative or management organ which has changed its name into that of a company but, in reality, is not assuming economic responsibility and still functions as a government administrative unit should, first of all, delegate the necessary authority to subordinate enterprises. After this, some of these administrative units may, in accordance with the actual situation, be abolished, merged with other organizations, or transformed into service companies. With the approval of the competent departments, some of them may be restored as administrative or management organs. Except for a few special cases approved by the State Council or the government at the provincial level, all companies that serve a dual function as an administrative organ and an enterprise and put up two or more brass nameplates must reorganize or split up. In line with the principles of separating the functions of government and enterprise, streamlining enterprises, and effecting decentralization, they must cease running several businesses at one time.

2. A company must have appropriate qualifications. To set up a company, there must be a fixed production or business site as well as funds appropriate to the scale of production and business (self-raised funds should account for a certain percentage, but bank loans are not regarded as self-raised funds), facilities, employees, sound financial, organizational, and management systems, and company rules. Companies which lied about their property and lack self-raised funds should be ordered to close or have their business licenses recalled. Companies that have less funds than they have registered should be ordered to make up the deficiency or readjust the registered funds within a specified time. Companies whose registered funds cannot support the business they engage in should have their scope of business and operation reassessed in accordance with their existing funds. Unqualified companies which lack funds, a business site, facilities, and the normal scope of business or employees should have their licenses revoked. As for those companies that cannot be located during examination, in addition to freezing their bank accounts, the competent departments should be ordered to check and find the companies and make them register anew with the industrial and commercial administrative departments concerned within a specified time. Industrial and commercial administrative departments should publish in newspapers the names of those companies which fail to register within a specified time and have their business licenses revoked.

3. Approval and registration are needed for establishing a company. The establishment of a national specialized company should be examined and approved by departments authorized by the State Council, and major national specialized companies should be examined and approved by the State Council. Companies set up by units affiliated to departments under the State Council should be examined and approved by those departments. Companies set up by public organizations, after having been examined and having had the consent of competent authorities, should be examined and approved by departments authorized by the State Council. The establishment of regional companies should be examined and approved by the people's governments at various levels. Transdepartmental and transprovincial companies, whose

establishment has been agreed on by the authorities concerned after consultations, should be examined and approved by departments authorized by the State Council. The establishment of import-export companies should be examined and approved by economic and trade departments. The people's governments at all levels and the various departments concerned, as well as the applicants themselves, must seriously examine all applications for establishing a company. Should there be any serious consequences because of improper examination, they should bear the economic and legal responsibility.

A company is allowed to operate only after it has its official documents of approval registered with the business administrative department concerned and has obtained a license to operate. The establishment of a collectively owned company may be registered directly after it has been examined by the business administrative department concerned. When it registers, a company should pay a registration fee according to the regulations of the business administrative department. In general, a company whose establishment has not been approved or which has not been registered with the business administrative department concerned after having been approved, should be resolutely banned after its operations and finances have been checked and dealt with. Certain companies may be allowed to apply for approval and complete registration procedures on a delayed basis.

4. A company must operate according to law and within the prescribed scope of operation. Its scope of operation must be compatible with the essential requirements pertinent to its production, operation, and services. While it may provide services in addition to its main business, it must operate within the approved scope when it is registered, and must not change or expand the scope of operation without approval. Without approval, a company not licensed to engage in trade is not allowed to handle import-export trade. Companies handling foreign trade, established without the approval of the State Council or economic and trade departments, must apply for approval and register afterward according to prescribed procedures. The licenses of those companies whose operation is incompatible with the prescribed requirements will be revoked.

Efforts should be exerted to investigate and strictly punish according to law and the relevant regulations those companies that carry out illegal activities, take advantage of loopholes in economic reform, and engage in speculative and profiteering operations such as buying up and reselling major production means and commodities in short supply, jacking up prices, defrauding people, reselling foreign exchange, and selling credits.

Bank loans and prepaid commercial credits must be handled strictly in accordance with state regulations. Any unit or individual who assists or facilitates an illegally operated company in violation of state regulations shall be handled strictly after their responsibilities have been investigated.

How a company pays its taxes must be seriously examined and checked, and a company which evades taxes must be handled according to law. A company

which enjoys improper tax deductions or exemptions must have its tax-paying scale readjusted according to actual conditions.

5. Leadership should be strengthened so that a company's liquidation and consolidation can be handled properly. A company's liquidation and consolidation should be organized by the people's governments of various provinces, autonomous regions, and municipalities directly under the central government with close coordination from financial, taxation, banking, customs, price, auditing, labor, and business administration departments. The liquidation or consolidation of a company set up by a military department should also be handled according to the above guidelines. Specific arrangements will be worked out by the military departments concerned.

CSO: 4006/937

NATIONAL POLICY AND ISSUES

JINGJI RIBAO ON INVIGORATING LARGER ENTERPRISES

HK271021 Beijing JINGJI RIBAO in Chinese 13 Aug 85 p 1

[Editorial: "Invigorate Enterprises in the Course of Reform"]

[Text] In invigorating enterprises, we should put the stress on the large and medium-sized enterprises. They play a decisive role in our country's national economy. Although large and medium-sized enterprises only account for less than 2 percent of all enterprises in our country, their fixed assets, profits, and taxes amount to more than 50 percent of the national total. If they are invigorated, the national economy as a whole will become more vigorous and active. At present, small and collective enterprises are all more vigorous than before, while the large and medium-sized enterprises shouldering the main tasks of the state revenue and product supply are not vigorous enough. This is a problem which must be solved.

How can the large and medium-sized enterprises be invigorated? Whenever this is mentioned, some comrades stress the importance of external conditions, demand reduced taxation and more retained profits and hold that the enterprises will be unable to develop and carry out self-structuring otherwise. This is a wrong idea. In invigorating enterprises, we certainly need some external conditions. The ongoing economic structural reform focusing on urban areas is, first of all, to make enterprises full of vigor. However, the spheres involved in the urban reform are much more extensive and complicated than those in the rural reform, and three to five years are needed to straighten out all the economic relations and create some relatively ideal external conditions for invigorating enterprises. Since May last year, in addition to the implementation of the second step in substituting tax payments for delivery of profits and the factory director (manager) responsibility system, and others, the State Council has already promulgated ten provisional regulations on further extending the decisionmaking powers of enterprises and approved and transmitted ten policies on promoting the technological progress of enterprises and the ten measures for invigorating the large and medium-sized enterprises proposed by the national economic work conference; therefore, speaking in terms of policies, the external conditions for invigorating the large and medium-sized enterprises have been basically created. Of course, it should also be admitted that because the economic relations as a whole have not yet been straightened out and prices not readjusted



well, in some spheres, the large and medium-sized enterprises are not as de-controlled as the small, collective, and individual enterprises, thus bringing difficulties to them. Nevertheless, these difficulties will gradually be diminished or even eliminated along with the deepening of economic restructuring. But, a process is needed, and the overall situation cannot become vigorous only a day after a reform plan was mapped out. The economic work conference convened by the State Council this year proposed to regard making the large and medium-sized enterprises basically vigorous in the coming three years as a goal for endeavor and adopt concrete measures to invigorate 30 percent of them in this year. This shows that the external conditions will become better and better.

When talking about invigorating enterprises, we always mean the two contents of improving the external conditions and carrying out the internal reform of enterprises. One is external cause and the other is internal cause, with the internal cause always being the principal cause. What is the criterion to judge whether an enterprise is vigorous or not? Primarily, we should see whether the enterprise is capable of multiplying its capital, manufacturing new products, making technological progress, and meeting emergencies, or "capable of transforming and developing itself" as it is said in the decision on reform of the economic structure. If an enterprise possesses this quality, even when the external conditions are not favorable, it is still capable of striving against the stream and struggling to advance; and when the external conditions are favorable, it is even more capable of riding the waves forward and making a [word indistinct] flight of 10,000 miles. On the contrary, if an enterprise does not have this quality, even when the external conditions are very favorable, it simply cannot become vigorous. At present, it is very unrealistic to pin the hope of invigorating enterprises on the method of reducing taxes and retaining more profits. The ongoing price and wage reforms all need large funds. For this reason, the state not only cannot reduce taxes but also has decided to tap latent potential and raise some additional tax revenue this year, with the aim of providing a more relaxed economic environment for reform, so as to create much better external conditions for invigorating enterprises. Therefore, as far as the large and medium-sized enterprises are concerned, the more important thing for them to do at present is to rely on themselves to conduct the internal reform, improve operation and management, and cultivate and develop enterprise quality under adverse circumstances. At present, about 15 percent of the large and medium-sized enterprises are now more vigorous and active. Among them, only a few have adopted the profit contract system at a progressive rate, and other methods, but most of them relied on internal reform of enterprises to become vigorous. They are examples for us to study.

How should the internal reform of the large and medium-sized enterprises be carried out? Recently, the machinebuilding industry system has summarized the experimental experiences in restructuring management, and, from the experiences of some vigorous enterprises, concluded the following seven points: 1) It is necessary to perfect the economic responsibility system, reform the distribution system, and handle well the relationships between the state and enterprises and between enterprises and staff member and

workers. 2) It is necessary to transfer part of the decisionmaking power in production and operation to branches and workshops, bring into play their initiatives and do well the work of unified leadership and decentralized management. 3) Under the condition of ensuring the completion of the tasks under the state mandatory plans, it is necessary to make full use of enterprises' equipment, technical advantages, and surplus labor and break the bounds of regions, departments, and trades to promote specialized coordinations. 4) It is necessary to vigorously promote quality, variety, and technology, actively introduce and adopt new technologies and expedite the technical progress and management modernization. 5) It is necessary to boldly promote and actively train qualified people and give technical personnel and workers at different levels multilevel specialized training and education. 6) It is necessary to keep a tight hold on building the two civilizations at once, intensify the ideological and political work and encourage the vast numbers of staff members and workers to foster lofty ideals and moral integrity, to become educated and cultivate a strong sense of discipline. 7) It is necessary to earnestly institute a system under which a factory director assumes full responsibility for production and operation within his term of office. In the light of the long-term development plan and operational strategy of his enterprise, a factory director should have explicit tenure objectives, make them known to the staff and workers and accept their supervision. Here, only the experiences of one department are recommended, which may be not complete. We hope that everyone will fully understand the means of "only reform can enable us to invigorate the economy and only advance can provide us with a way out;" and that everyone will join to summarize the experiences in the internal reform of enterprises and blaze new trails, so as to better invigorate the large and medium-sized enterprises.

CSO: 4006/919

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO DEFENDS ENGELS' SCIENTIFIC SOCIALISM

HK290635 Beijing GUANGMING RIBAO in Chinese 14 Aug 85 p 3

[Article by Li Zhongshang [2621 1813 1424]: "Theoretical Guide to the Exploration of New Topics of Study of Scientific Socialism--Commemorating the 90th anniversary of the Death of Engels"]

[Text] It is now the 90th anniversary of the death of Engels, one of the founder of scientific socialism. The proletariat throughout the world all dearly cherish his memory. In his later years, particularly after Marx's death, Engels conducted exploratory research into some social changes that were caused by the tremendous growth of the productive forces in the capitalist society at the end of the 19th Century. He thus made outstanding contributions to the development of the theory of scientific socialism and was therefore attacked in various ways by the bourgeoisie. The "Anti-Engels" written by Bu Er Chu Wei Si [1580 1422 2806 4550 2448] in 1910, the criticism by the theorists of the Second International against Engels, and the contemporary "new Marxist" "theory on modern industrial society" all tried to prove that scientific socialism was fabricated by Engels and thus negate the theory of scientific socialism.

The scientific and technological revolution that began in the 50's and 60's of the 20th Century has not only greatly increased labor productivity but also given rise to profound changes in labor composition, welfare composition and the style of consumption. Many of the questions related to some changes that were brought about by the increase in the productive forces. Questions that Engels probed at the end of the 19th Century, again become questions that urgently required theoretical answers today.

In the current situation, the "new Marxism" has put forth the "theory on modern industrial society" and attempted to substitute that theory for the answers that scientific socialism has given to the questions that cropped up in reality. That theory holds that in a developed industrial society, people's material demands are satisfied. However, this is only the satisfaction of a "false demand," because this is a "demand that some special social power has forced on the people as individuals from the top downward in order to restrict them." (Herbert Marcuse: "One-Dimensional Man," p 15)

However, man's "real demand," in other words, the pursuit of reason, the maintenance and sublimation of human nature and man's freedom from material demands are dying out. Man has sunk low, become "one-dimensional," and lost his most valuable and most creative ability of negation and criticism. In this process, the proletariat has also become "one-dimensional," and merged into one unity with the capitalist system. By "having only one dimension" they mean that there is a "transcendental force" that plays a role of control and assimilation, that enables the capitalist system to become stabilized and causes most people to lose their (critical facilities?). In order to change this lamentable "one-dimensional" society, a small number of non-single-dimensional intellectuals should expose the one-dimensional nature of society and culture, enlighten people with ideas about negation and criticism, and finally make them jointly establish a highly self-governing civilized society of free people that is neither socialist nor capitalist.

Has the "theory on modern industrial society" really answered the problems in today's reality? Have the conclusions and forecasts that Engels made in his lifetime lost their practical significance? We hold that although the "theory on modern industrial society" partially reflects the phenomena of the reality of modern capitalist society and exposed, from the angle of existentialism, humanism [ren-wen-xue 0086 2609 1331] and psychoanalysis, the constraint and slavery that the working class and masses of people suffer from under the surface of prosperity in the capitalist society, and although the theory sees in its own special way the evils of modern capitalist society and touches some practical problems related to current transition from capitalism to socialism, because the theory fails to correctly and deeply understand the essence of the capitalist society, it is impossible for the theory to chart out any correct path to rescue the human race the "one-dimensional" capitalist society that destroyed man. In order to answer these questions, we must learn the Marxist stand, viewpoints and methods and develop them under the new historical conditions. Engels' exploration of these questions in his later years is of particular importance for guiding us.

A question that urgently needs to be answered in our time is whether plentiful material means in the capitalist society will eliminate the confrontation between the proletariat and the bourgeoisie. The "theory on modern industrial society" holds that in modern capitalist society, the material demands of the working class are satisfied and that this means that the proletariat has thus lost its urge for revolution and that the "proletariat has been merged into one with the capitalist system." Obviously, this conclusion is based on a negation of the "conditions of the working class in Britain" that Engels described at the beginning of the 19th Century and on the view that regards the heavy labor and poverty suffered by the working class as the essence of the concept of "proletariat." This is a metaphysical method of cognizance that proceeds from phenomena. The status of a proletariat is determined by the relation of possession of means of production. The essential characteristic of the proletariat is that it does not own means of production and lives by selling its labor. The concept of "proletariat" is closely related with the relations of production which correspond to the productive force. As

long as the capitalist system of exploitation continues to exist, it is impossible to change the antagonistic class relations between the proletariat and bourgeoisie. The revolutionary nature of the proletariat originates from the struggle for the fundamental interests of the proletariat. "Some improvement in workers' clothes, food and remuneration and some increase in their property" will not eliminate their subordinate relation as slaves or the exploitation suffered by them nor their subordinate relation or the exploitation suffered by them as wage laborers." ("Collected Works of Mark and Engels" vol 23, p 678) In Engels' later years, on the basis of his research into the capitalism at the end of the 19th Century, he not only adhered to this basic view of his and Marx's but also once more clearly proved by reasoning: "The masses of wage laborers are destined to work for wages all their lives and the gap between them and capitalists will become increasingly deeper and wider" along with the development of modern large-scale industry; "this capitalist relation always reproduces the antithesis between the class of capitalists and that of wage laborers." (Ibid, vol 22, p 110) The productive forces that have been created by the bourgeoisie is in fact precisely the "material means for the emancipation of the proletariat and the establishment of a new society" mentioned by Marx and Engels. (Ibid, vol 6, p 659) The conclusion can only be: "The weapon that the bourgeoisie used to overthrow the feudal system is now used against the bourgeoisie itself." ("Selected Works of Marx and Engels" vol 1, p 257) The question of how to understand the role of science and technology in our society has already become a sharp issue that we cannot avoid in conducting research into the society in our times. One of the grounds for the "theory on modern industrial society" is the so-called "theory that technology determines everything." This theory holds that the "modern industrial society" which is founded on a scientific and technological revolution, "has rallied around its former opponents" to strive to relationally exploit wealth in nature, raise labor productivity and thus improve the people's living standards and build a society of material welfare. The fundamental mistake of the "theory of technology determines everything" is its [word indistinct] exaggeration of the role of science and technology in the modern industrial society, does not consider the factor of relations of production which plays an important role in social development. Engels pointed out that as a productive force, science and technology on the one hand is a revolutionary force that gives impetus to the progress of history, but on the other hand, science and technology is also closely related to class struggle and the revolution of relations of production. If we say that slavery gave a greater impetus to the development of productive forces than the primitive communes, then compared with slavery and the feudal system, capitalism has created a highly developed technology that surpasses to an incomparable extent that in all past eras. From this we can see that class struggle and the revolution of relations of production has promoted the development of science and technology. The further development of science and technology in our times is determined by the revolution of the capitalist system and the establishment of socialist system.

It is necessary to answer more deeply in theory the question of how we are to understand the strengthening intervention of capitalist states in their economies. The theory on "proletariat being merged into one with the capitalist society" and that on "human nature being made one-dimensional,"

theories whose development is based on modern capitalism, constitute a political "theory of socialism and capitalism trending to develop in the same direction." In other words, these theories try to prove that socialism and capitalism become more similar to each other day by day and that it is possible to establish a "new society" of the same social essence on the basis of the common characteristics of both socialism and capitalism. The common characteristics of the two are embodied in the development of state monopoly capitalism and the strengthening of the intervention of capitalist states in economic processes. As far back as in the 1870's and 1880's, Engels analyzed the phenomenon that the mixed growth of governments and financial oligarchies has caused the strengthening day by day of the economic intervention implied that the essence of a capitalist state was an "ally between government and exchanges." ("Selected Works of Marx and Engels" vol 4, p 169) This pointed out the direction for us in understanding this phenomenon more profoundly.

In short, the fundamental mistake of the "theory on modern industrial society" is the negation of the principal contradiction of capitalist society--the contradiction between socialized production and capitalist private ownership. It lays particular stress on the role of nationalization and thinks that nationalization can change the nature of the capitalist society. In fact, in his later years, Engels already expounded on this in an original way. At the end of 19th Century, the emergence of post, railway, telegram and other telecommunications and communications industries caused the emergence of the phenomenon of nationalization in capitalist countries with private ownership. From this Engels saw: "This resistance against the characteristics of capital by the fiercely growing productive forces and the daily growing urgent demand for recognizing its inherent social nature have forced the capitalist class to regard, to an increasingly greater extent, productive forces as social productive forces within the limit allowed by the relationships of capital." ("Collected Works of Marx and Engels" vol 3, p 317) At the same time, Engels also exposed the phenomenon of nationalization (such as the nationalization of the railway by Bismarck) as a false socialism and that "its starting point is not the public welfare of the state" but to serve the capitalists in earning profits and gaining power." ("Collected Works of Marx and Engels" vol 19, p 197) Engels' tremendous contribution to Marxism in analyzing the phenomenon of nationalization lay in the fact that he not only saw the tendency of the development of the daily strengthening of the economic intervention by capitalist states, but he also clearly pointed out that the anarchy of capitalist production had already begun to surrender to socialist planned economy and the daily growing tendency of the socialization of capitalist production will inevitably lead to the demise of capitalism. On the basis of his analysis of the phenomenon of nationalization Engels pointed out that the only way to solve this problem is to "actually recognize the inherent social nature of modern productive forces." ("Selected Works of Marx and Engels" vol 3, p 318) By so doing he proved by reasoning the inevitableness of the transition of capitalism to socialism.

Engels' scientific analysis of the changes in modern capitalist society greatly enriched the content of the theory on scientific socialism. Although some of

his thesis need supplementing, perfecting and developing in practice, after all he opened up the way and pointed out the direction for us to deeply understand the changes in modern capitalist society and push the cause of socialism forward. The cause that Engels failed to complete will be completed by world proletariat and revolutionary people. Like Marx, Engels' great name and cause are immortal!

CSO: 4006/919

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON CONTROLLING SCALE OF INVESTMENT

HK240906 Beijing GUANGMING RIBAO in Chinese 17 Aug 85 p 3

[Article by Jing Zongxian [2529 1350 6343] and Liu Huiyong [0491 1979 0516]"  
[The Core Question of Macroscopic Control Over the Scale of Investment"]

[Text] The core question of macroscopic control over the scale of investment includes two points: One is the scale of which investments should be brought under control; and the other is how to determine an investment quota on a more scientific and reasonable basis. The correct solution of these two questions is the foundation and precondition for proper overall economic control. If we fail to clearly settle these questions, we will not have a scientific foundation for controlling the scale of investment.

For many years, there have been many different opinions on what kind of investment should be brought under control. In a broad sense, the scale of investment refers to long-term or intermediate-term investment projects, which include those in the 5-year plans, those under construction, and those in the annual plans. For many years, we have mainly controlled the scale of investment in the annual plans, and have not included the total investment in the projects under construction in the scope of overall control. This is a main reason for the excessive expansion of capital construction. In our opinion, the key to controlling the scale of investment lies in the scale of investment in projects under construction. If we keep the number of these projects and the amounts of investment in these projects at a reasonable level, we will be able to ensure the supply of funds, materials, and equipment for them and will be able to complete them according to schedules so as to achieve good investment results and to prevent the scale of investment from outgrowing the annual quota. In short, efforts for investment control should be focused on the total scale of investment in projects under construction, and this should be taken as the main yardstick for the overall investment control.

To take the scale of investment projects under construction as a yardstick, we need to effectively handle the difference between the total planned investment amount and the actual needs for investment funds. The key to the settlement of this issue is that the budgetary estimate must be worked out



in a scientific and realistic way. There must be no false reports or distorted figures. Only thus can we ensure sufficient funds for each investment project and ensure the implementation of the investment contract system and satisfactory investment results. At the same time, it is necessary to compare and analyze the accounts after the completion of the projects so as to find out why actual investments exceed the budgetary estimates. This will provide a reliable foundation for determining the scale of investment in projects under construction and for effective overall investment control.

Fixing up a reasonable scale of investment in an annual plan is the foundation for keeping the general scale of investment at a reasonable level. It is necessary to decide the scale of investment in projects under construction in light of the average annual investment and the reasonable construction periods.

In order to work out a scientific quota for the scale of investment, we must accurately estimate the growth rate of the national income and the growth rate of depreciation funds, maintenance funds, and other cost items which affect the investment in fixed assets. Thus, we can calculate the proper proportion of investment of the national income in accordance with the principle of maintaining an appropriate ratio between accumulation and consumption and between fixed assets and circulating assets.

At the present stage, the total of the annual amount of depreciation funds and maintenance funds that whole people-owned enterprises can obtain each year for investment in fixed assets and the increase in the part of the national income used for investment in fixed assets and the increase in the part of the national income used for investment in fixed and circulating assets constitutes a reasonable increase in the scale of investment in an annual plan. This increase should not be regarded as out of control.

In order to accurately work out the scale of investment in an annual plan, our comprehensive state economic departments and banking departments should work out an appropriate ratio between accumulation and consumption in the increasing part of the national income and a ratio between investment in fixed assets and circulating assets in accordance with the established policies for the development of the national economy. Then, the result should be demonstrated in the taxation and finance policies of the state.

CSO: 4006/919

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON MACROSCOPIC CONTROL OVER INVESTMENT

HK280953 Beijing GUANGMING RIBAO in Chinese 17 Aug 85 p 3

[Article by Wang Jiachun [3769 0502 2504]: "Tentative Discussion on Means of Macroscopic Control Over Investment"]

[Text] In recent years, theoretical and practical workers have put forth tentative ideas and opinions on the scope of investment. There is no doubt that it is necessary for them to do so. However, the success of the state's macroscopic control over the level of investment lies in effective use of planning, capital, and investment profits.

Control Over Investment by Making Use of Planning

The state's investment plan is a basis for control over the scope of investment. The range covered by the plan is an essential prerequisite for exercising control over investment.

A scientific plan for investment should, first of all, ensure a balance and guarantee reliable sources of funds. As far as domestic funds are concerned, we should mainly keep a balance between financial funds and credit funds. Financial funds and credit funds are the two main sources for providing construction funds in our country. They are closely interrelated. As for banks which provide funds, apart from borrowing money (deposit-taking and issuing paper money is a kind of debt), they must have their own funds. Under normal conditions, the difference arising in bank credits should be made up by financial departments. Under the abnormal conditions that financial expenses exceed income, bank overdrafts are needed. Generally speaking, there are three methods for arranging overdrafts. The first method is to make use of cash surpluses accumulated over the years, that is, drawing on reserves. To maintain a financial balance, the banks should appropriately reduce the level of loans. The second method is to make use of bank deposits. In other words, some of the bank deposits should be made use of to make up the difference. When employing this method also banks should reduce the level of loans. Under the two circumstances mentioned above, although financial expenses exceed income, judged from the viewpoint of balance between finance and credit, financial balance can be maintained. However, problems will arise when we make use of the third method. In other words, when financial deficits

have occurred in successive years and credit funds can no longer support the financial overdraft, banks are compelled to issue paper money to replenish the sources. Thus, substantive imbalance will occur. If banks fail to take immediate action to tighten the money market, credit inflation will occur, and they will severely aggravate such an imbalance.

The seriousness of the problem lies in the fact that financial deficits are visible, whereas the difference between income and expenses in credit is frequently covered up. This is because the balance between income and expenses in credit can be nominally maintained. If the funds owned by the banks are excluded, the relation between income and expenses in credit should be that the amount of credit is equal to amount of deposits plus the amount of paper money issued. Superficially speaking, extending credit can create sources of income. However, the issuing of paper money by the banks is needed for the circulation of commodities, although it might possibly become a gap which disturbs the overall balance of financial power. In recent years, last year in particular, an overheated atmosphere occurred in the national economy. When financial departments lacked money, they turned to the banks. Various banks extended credit for investment. Credit levels increased by a big margin. When such a substantive imbalance between income and expenses in credit is revealed through the strain on the relations between supply and demand for goods, and increases in commodity prices, a tense situation will occur in various aspects of economic life.

A scientifically conceived plan for investment should be a comprehensive plan. Investment in fixed assets "removes labor and means of production for a fairly long period of time. During this period of time, no effective products will be provided." ("Complete Works of Marx and Engels," vol 24, p 396) To what extent a society can carry out such long-term undertakings with input alone and without any output can only be determined in a practical way by the overall balance between the financial resources, material resources, and manpower of that society. All activities connected with investment in fixed assets, which consume materials and expend funds and manpower, should be reflected in the investment plans of the whole country. In recent years, to enliven the investment activities of localities and enterprises, the departments of the state concerned adopted the method of "breaking a dyke" in the plans. In other words, some investments were made in projects which were not covered by the plan. Over the past few years, the investments made by collective units and investment by individuals in house-building projects have not yet been brought into an overall and balanced development. A fairly large number of investments made by units under ownership by the whole people are not yet covered by the plans.

Judging from the above-mentioned circumstances, a balance in planning work with defects and a half-balance is actually a sham balance. It is a latent destructive power. Once such power blocks the reproduction of society, macroscopic imbalance and economic chaos will inevitably occur. Therefore, while making use of the state plan to exercise control over investment, we should ensure a true and overall balance between our capital, materials, and working capability. Nominal balance is not what we want.

## Control Over Investment by Making Use of Capital

The investment plan has provided a basis and possibility for control over the scope of investment. However, to keep the scope of investment within the targets set by the plan, we should make use of funds. In a sense, making use of funds to exercise control over the scope of investment is more direct and effective than other methods. This is because investment means payment of funds the value of which will be paid back later. Once the funds are controlled, the scope of investment is also controlled.

At present, making use of funds to exercise control over the scope of investment, we should solve the following two problems:

1. We should prevent a drain on state funds. Since the implementation of the policy of substituting taxes for the delivery of profits, the profits retained by state-run enterprises have increased year after year because of the expansion of production and circulation. To promote technical reforms in old enterprises, the state has opened up some new channels of funds for them. According to policy, the enterprises concerned may retain more profits. This is an important aspect of expanding the decisionmaking power of enterprises. Legitimate interests of enterprises should be protected. However, the present problem is that some enterprises have continuously increased the funds which are not covered by the budget. Some of these funds are taken out of the financial revenue of the state. Some enterprises have arbitrarily calculated costs of production, illegally retained profits and increased the ratio of profit retention, sold their own products in violation of contracts, evaded taxes, and so on. In so doing, they have appropriated the financial revenue of the state. If we fail to do more to ban all these malpractices, it will be impossible for us to exercise control over the scope of investment. To prevent the drain on state budgetary funds, according to the existing rules and regulations, if an enterprise intends to invest funds, raised by relying on their own efforts, in fixed assets, they must deposit the money in a construction bank in advance. "Deposit the money before approval is given by the higher authorities, and the money can only be used after approval is granted by them." It is the responsibility of the construction bank to check up on the funds raised by localities and enterprises. If they adopt illegal means to appropriate the revenue of the state, they are not allowed to deposit their money in the bank for the arranging of capital construction.

2. We should exercise control over bank loans. Different specialized banks differ in their scope of business and have different depositors. Increasing the levels of bank deposits and bank loans is different from enhancing their capability to maintain their financial balance. To ensure a balance of credit funds, the central bank should strengthen its control over the work of specialized banks regarding bank deposits and loans. Through credit plans, we should ensure a balance between credit funds and their use in the whole of society. In accordance with credit targets assigned to them by the central bank, various specialized banks should prevent enterprises from passing off credit funds as funds they have raised by relying on their own efforts to expand capital construction. They should also prevent some enterprises from

misappropriating their circulating funds in order to make investments. We know that after using their circulating funds, some enterprises apply for bank loans earmarked for circulating funds. To truly enable construction banks to discharge their duties of monitoring the investments made by enterprises, the present situation, whereby construction funds are supplied by several banks, should be changed. Work should at least be done to ensure an increase in the percentage of investment made by state-run units which is controlled by construction banks from the present 50 percent to 80 or 90 percent.

#### Control Over Investment by Making Use of Investment Profits

So-called control over investment by making use of investment profits means that the profits of investors should not be lower than the average profit rate of the department or trade concerned. However, at present, due to the fact that the flow of capital in our country is still restricted and that economic levers have not yet been fully utilized, the average profit rate of the entire society has not yet been established. Under such circumstances, it is only the average profit of the department or trade concerned that can be used as a yardstick to calculate the profits of investment. In this connection, different interest rates should be fixed on bank loans provided for different trades. If investment profits are lower than average profit rates, this will objectively put pressure on enterprises, and restrict their blind expansion of investment.

To exercise control over investment by making use of investment profits, a person should be specifically assigned to take charge of the work of making use of the funds in investment and of recovering them. This will change the present situation in which the person responsible for making use of the funds in investment is separated from the person responsible for recovering the funds, and in which they do not condition each other economically. We should ensure that investors are responsible not only for arranging funds in their investment, but also for recovering funds and obtaining average profits. They should be truly responsible for the entire process of capital turnover, so that they will tap the potentials of their economic driving force. Investment profits of investors should be integrated with their material interests. Those who are responsible for investment projects should not be changed frequently, so that they know the entire process of capital turnover. Whether they should be awarded or punished is determined by investment profits and profit distribution.

Furthermore, we should straighten out economic relations so that investment results can truly reflect the efforts exerted by investors. We should exclude objective factors which affect investment results by readjusting and improving economic levers such as taxation, interest rates, and so on. Under the present condition, in which all construction funds are supplied by banks, with interest attached, it is an urgent need to readjust lending policy.

1) The level of interest rates should be properly increased. The present situation in which interest rates are comparatively low and banks and

investors are not economically conditioned, should be changed. 2) The present method for paying back funds should be changed. The present loans for capital construction, whether they are provided through the method of "granting loans rather than allocating funds," or the method of making use of bank deposits to grant loans, are characterized by the practice of paying back funds with gross profits before deducting taxes. This actually means that loans are mostly paid back from the financial revenue of the state. Enterprises are not wholly responsible for paying back loans. Under most circumstances, they are certain to obtain benefits from investment.

To change the present situation, funds for most investment projects should be contributed by the state financial departments and enterprises concerned rather than being mostly provided by the state financial departments. The enterprises should use their own capital to provide funds for construction projects. In future, with the increase in their capital, the percentage of funds contributed by them for construction projects should be gradually increased.

CSO: 4006/919

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON CHARACTERISTICS OF VALUE OF LAW

HK270825 Beijing GUANGMING RIBAO in Chinese 10 Aug 85 p 3

[Article by Deng Jiarong [6772 0502 2837]: "Tentative Discussion on the Characteristics of the Law of Value"]

[Text] In the entire system of economic laws, compared with other economic laws, the law of value has more specific characteristics. We should understand it well and study it conscientiously.

The first characteristic of the law of value is its strong feedback. The law of value is closely connected with economic levers such as prices, wages, taxes, credit, interest rates, and others. Each of these economic levers is an independent information system, which plays a sensitive role in various aspects of the economic life in the society, and produces a prompt and extensive reaction in the economic life of the society. The so-called prompt reaction means that it is highly sensitive and that it touches upon various aspects profoundly. The so-called extensive reaction means that it involves a whole series of important questions, and that it concerns almost every person in society. It is precisely because of such high sensitivity and extensive reaction that economic levers can play a promoting, or restraining role in the economic life of society.

Due to the fact that the law of value is directly connected with these economic levers, it not only provides information for the economic life of the society, but also receives prompt and extensive feedback. Of course, other economic laws such as the law governing the proportionate development of the national economy in a planned way, and law governing the principles of distribution according to work, and other will also receive feedback in the process of playing their role. However, the feedback they receive is not so prompt, sensitive, and extensive as that of the law of value. They receive feedback only after a certain period of time. For example, the defects resulting from an imbalance in the proportional relations between accumulation and consumption, or the improper relations of development between products of the first category and the products of second category can be discovered only after a fairly long production and circulation period. Therefore, consciously making use of the law of value in macroeconomic and microeconomic readjustment will enable us to discover, reveal, and solve problems earlier. It can help us avoid the delay in fully discovering defects until the

occurrence of a severe imbalance in the development of the national economy and an extremely irrational economic structure. This is the reason why classical writers say that the law of value is a big school [Da Xue Xiao 1129 1331 2699].

The second characteristic of the law of value is that it provides strict quality standards. In the entire system of economic laws, some economic laws mainly reflect a certain trend. They may provide strict quality standards but their effect on quantity is not so obvious, such as the basic economic law of socialism, and so on. Some economic laws have a fairly strong sense of the law of quantity. They reflect the law governing the continuous growth of labor productivity, and the law of giving priority to the increase of the means of production, and others. They only demand the growth of quantity in general rather than the accurate increase in quantity. However, what the law of value demands is different. We all know that the law of value has the following two basic functions: 1. The value of commodities is determined by the working time needed by society. 2. Commodities are exchanged in accordance with the principle of exchange of equal value. All this follows a strict law of quantity, and demands a precision in quantity and a high degree of accuracy (of course, some economic laws, such as the law governing proportionate development of the national economy in a planned way, the law governing the principle of distribution according to work, and others also require a precision in quantity and a high degree of accuracy. I do not intend to discuss them in detail in this article).

The formation of the substance of value is regarded as the core of the law of value. The quantity of the substance of value is determined by the amount of labor necessary for society, and the amount of labor needed by the proportionate development of the reproduction of society (we call it amount of labor needed by society for short). The amount of labor necessary for society and the amount of labor needed by society plan the same role of determining the formation and establishment of the value of commodities. It is because if a certain kind of products is not needed by the society, or exceeds the demand of the society, its relevant value will not be established even if the amount of labor is sparingly spent on manufacturing such products. Marx pointed out that: "Not only is no more than the necessary labor-time used up for each specific commodity, but only the necessary proportional quantity of the total social labor-time is used up in the various groups." ("Das Kapital," vol 3, p 716)

These two kinds of amount of labor of the society determine the value of commodities. The magnitude of value of commodities is clearly decided by these two kinds of amount of labor. Such precise quantity and high degree of accuracy can be accurately calculated. People should not disregard such precisely calculated figures. Otherwise, they will promptly receive negative feedback.

The other characteristic of the law of value is that it has a strong and objective compulsory nature. It is true that all objective economic laws have their own compulsory nature. They compel people to follow them, and not to



violate them. If people go against them, they will, sooner or later, be punished. However, the differences between the law of value and other economic laws lie in the fact that the law of value manifests its compulsory nature faster and earlier than other economic laws, at the microeconomic level in particular. If the prices of certain commodities are not reasonably fixed, the commodities will either be out of stock, or unsalable on the market. Furthermore, such compulsory nature can cause a very strong reaction in the society and in practice, which people might generally and easily feel.

It is precisely because of the above-mentioned characteristics of the law of value that in the course of promoting socialist construction, we should consciously make use of it. We should neither neglect and evade it nor restrict it. Due to the fact that the law of value is organically linked with various economic levers and market mechanisms, it can produce marked feedback and has a strong sense of the law of quantity. Making use of the law of value is not so simple and convenient as making use of planning mechanisms. It is not so easy and handy as making use of administrative means and issuing administrative orders. Therefore, we should carefully learn to make use of the law of value. We should on no account give it up because it is complicated, changing all the times, and difficult to master. If we fail to make use of the law of value, there is no doubt that it will be detrimental to enlivening our socialist economy.

CSO: 4006/919

## NATIONAL POLICY AND ISSUES

### NEW APPROACH TO NATIONAL INCOME DIVISION DISCUSSED

Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 1, 20 Feb 85 pp 26-29, 7

[Article by Dong Jibin [5516 4949 2430] of the Editorial Department of JINGJI WENTI [ECONOMIC ISSUES]: "A New Approach to National Income Division"]

[Text] Through distribution and redistribution, socialist national income is finally divided into accumulation funds and consumption funds. This simple rule is the A-B-C of socialist political economy. Nevertheless, for many years, the economic theory circles and the planned statistical sector have not strictly differentiated this concept in theory or rationally carried it out in practice. Consequently, the division of the national income is unscientific. This article will present a few tentative viewpoints in regard to this issue.

#### I. Accumulation and Consumption

Accumulation and consumption form a pair of economic categories in national income distribution. Accumulation and consumption embody both qualitative regularity and quantitative regularity. In order to enable national income division to conform to Marxist economic principles and to the objective laws of economic development, we must carry out penetrating study of the rules for accumulation and consumption. For this reason, it is necessary to review classical Marxist literature on accumulation. In "Capital," Marx points out: "To use surplus value as capital, or to retransform surplus value into capital, is called capital accumulation" ("Collected Works of Marx and Engels," Vol 23 p 835). In discussing the dependent relationship between accumulation and surplus value, Marx points out: "All methods of producing surplus value are similarly methods of accumulation. The expansion on each occasion of accumulation in turn becomes a means of developing these methods" (Ibid., p 708). In these analyses of qualitative rules of accumulation, we can see that accumulation in political economy usually is narrowly defined, which involves the following basic rules: first, it is linked with surplus products; second, it is used in the process of extended reproduction; third, it is manifested as additional quantity; fourth, it can increase the national income. Although Marx and Engels have derived their scientific rules of accumulation from observing the process of capitalist reproduction, after getting rid of the capitalist relations of production, they are entirely suitable for the socialist economy. Thus, the so-called socialist

accumulation is the transformation of a portion of society's net income into a fund for extended reproduction (including the material reserve needed in extended reproduction).

Consumption, which is the opposite of accumulation, is consumption in a narrow sense, which is livelihood consumption. The essence--that is, the qualitative rule--of socialist consumption lies in the use of a portion of the socialist national income to satisfy the individual's material, cultural and daily needs as well as the common needs of the members of society.

## II. Accumulation Funds and Consumption Funds

Accumulation funds and consumption funds are rules used separately for accumulation and consumption. The above rules regarding accumulation and consumption have laid the foundation for clarifying the scientific categories of accumulation funds and consumption funds.

According to the rules of accumulation, the accumulation fund can only be that portion of the socialist national income which is used in expanding reproduction and in building a productive material reserve. In terms of capital turnover, the composition of the accumulation fund can be divided into fixed capital accumulation and floating capital accumulation. In terms of the purpose of use, it can be divided into accumulation of the means of production and the accumulation of the means of subsistence. In terms of the direction of investment, it can also be divided into investment in the means of production, investment in labor power, and investment in productive acumen. Here, it is necessary to expand upon the view that regards the investment in productive acumen or intelligence as accumulation fund.

As everyone knows, the process of extended reproduction requires two kinds of basic added investment, one being material resources and the other manpower. However, practice has proven that, both additional material resources and manpower, when combined to form realistic productive forces, produce very different results. Why? Because the invested manpower and material resources are qualitatively different. This "qualitative difference" is ultimately the result of the difference in intelligence. We know that the instruments of labor and the subject of labor through processing are materialized intelligence, and man's labor ability is a combination of intelligence and physical strength. Thus, we can say that the investment in productive intelligence is useful in the following productive elements--man and materials. Undoubtedly, the production process directly increases both. The direct intensification of manpower and material resources by the investment in intelligence results in the intensive expansion of production capacity. In the present age, with the rapid development of science and technology and the similarly rapid improvement of mankind's productive forces, the investment in intelligence has extended from the nonproductive realm prior to the industrial revolution to the productive realm. When the development of the social productive forces demands improvement in the workers' intelligence, whether or not mankind's own production can satisfy this demand becomes a decisive factor in whether or not the productive forces can develop further. Marx once pointed out: "That which the workers spend on education is insignificant. Whatever the workers spend is production, because education will produce labor

ability" ("Collected Works of Marx and Engels," Vol 26 Part 1 p 210). We can see that Marx has long expounded on the productive function of the investment in intelligence. Furthermore, the investment in productive intelligence fully embodies the attributes of accumulation funds. We know that, after the division of accumulation funds, the main portion is the fund for extended reproduction. The fund for extended reproduction can again be divided into the fund for extensive extended reproduction and the fund for intensive extended reproduction. The fund for intensive extended reproduction again can be divided into the fund for technological transformation which involves improving and raising the technological performance and quality of the means of production as well as the fund for education and training, which improves the level of intelligence in labor. The latter belongs to the investment in productive intelligence. We can see that the investment in productive intelligence intrinsically belongs to the category of accumulation fund.

For many years, the economic theory circle and the planned statistical sector have written books and issued statements, but the concept of accumulation fund in planned statistics is inaccurate. The more popular viewpoint maintains that the accumulation fund is that portion of funds in the national income of a socialist society which is used in expanding reproduction, in carrying out nonproductive capital construction and in building up a material reserve. Here, investment in nonproductive capital construction has been included in the accumulation fund. We know that the nonproductive capital construction (with the exception of the additional construction of such facilities as housing quarters for the newly-increased workforce for extended reproduction), whether it involves cultural and recreational facilities or national defense construction, is a form of consumption. It not only cannot expand the scale of production, it cannot increase the national income. Its inclusion in the accumulation fund has basically violated the scientific rule of classical Marxism concerning accumulation. Thus, the investment in nonproductive capital construction cannot be included in the accumulation fund.

According to the rules of consumption, the consumption fund should be that portion of socialist national income which is used to satisfy the individual material, cultural and livelihood needs as well as the common needs of the members of society. The composition of the consumption fund, based on its form of use, can be divided into individual consumption fund and society's collective fund as well as the reserve of the means of subsistence for individual consumption or society's collective consumption. Of this, society's collective fund is divided into the state's administrative fund, national defense spending, nonproductive science and education funds, cultural and health funds and social security funds. In short, the consumption fund includes the material means of subsistence in such aspects as clothing, food, housing, transportation and spending.

Here we must point out that nonproductive capital construction and durable consumer products such as houses, refrigerators and television sets are one-time projects or purchases, which are consumed gradually in subsequent years. In view of this character of the consumption fund, the statistical work involving consumption fund should set up two separate subjects, "the amount of distribution of the consumption fund" and "the use amount of the consumption fund." Their composition is as follows:

The amount of the consumption fund distributed = the amount of national income within a definite period of time - the amount of accumulation fund within that same period.

The use amount of the consumption fund = the amount of consumption fund actually used within a definite period of time.

For instance, in calculating the "amount distributed," the investment in nonproductive capital construction must be calculated in full so as to maintain a link between the gross amount of accumulation fund and consumption fund on the one hand and the amount of use of the national income on the other. In calculating "amount of use," we need only calculate the portion of depreciation for that year in order to represent the actual level of consumption for that year. Obviously, based on the abovementioned statistical method, we must not only propose a depreciation rate for a building structure but must also fix a scientific depreciation rate for durable consumer products. In actual work, this is extremely complicated. Thus, generally, it is possible to calculate all the durable consumer products in the consumption fund for that year. However, with the increasing improvement of the standard of living of the residents and the gradual popularization of high-grade durable consumer products, the price difference between the amount of distribution of the consumption fund and the amount of use of the consumption fund will become greater and greater. Thus, we should, on the basis of scientific determination, fix a rational depreciation rate for durable consumer products so that the amount of use of the consumption fund can become more precise, thereby enabling consumption fund statistics to better conform to the distribution of the national income and the residents' actual level of consumption.

### III. Net Accumulation and Consumer Accumulation, Net Consumption and Accumulative Consumption

After the abovementioned classification and merging of the relevant elements in the national income, we should strive to make the categories of the accumulation fund and consumption fund conform to the scientific rules of classical Marxism and strive to make the division of the national income clear and scientific. However, our study of the division of the national income must not stop here. This is because both the accumulation fund and the consumption fund have their own complete internal structure. Clarifying this structural relationship will be helpful to the rational distribution and use of the accumulation and consumption funds. Thus, we must carry out division of the national income at a deeper level.

First of all, we should look at the accumulation fund. As accumulation funds, investment in the means of production, in labor power, in productive intelligence, and the material reserve all have their corresponding material contents. Investment in the means of production is used in purchasing and adding such aspects of labor as the means of labor and raw materials. Investment in labor power is used in satisfying the livelihood and subsistence needs of the workforce. The investment in intelligence is used in improving the workers' level of intelligence. Material reserve refers to productive material reserve. With respect to the ultimate result of use, the composition

of the abovementioned accumulation fund can be divided into two forms of accumulation: One is a fund which is directly used in the production process, such as the investment in the means of production and the reserve of the means of production. The other is an accumulation fund which will ultimately be transformed into consumption, such as the investment in labor power, the investment in productive intelligence and the means of subsistence reserved for additional labor power for extended reproduction. Based on this, we might call the accumulation fund which is used directly in the production process as net accumulation, and the accumulation fund which is ultimately transformed into consumption as consumer accumulation.

In the process of social reproduction, a definite proportionate relationship must be maintained between net accumulation and consumer accumulation before social reproduction can be carried out smoothly. From the angle of the whole society, to realize extended reproduction, the production of the first category must not only satisfy the means of production for the simple reproduction of the two major categories but must also provide the supplementary means of production needed for extended reproduction of the two major categories. If we use  $\frac{m}{x}$  to represent the portion of the surplus products consumed by the nonproductive realm, and  $\frac{m}{y}$  to represent the accumulation of the means of production in the surplus products, and  $\frac{m}{z}$  to represent the accumulation of the means of subsistence in the surplus products, then:

$$I(c + v + m) = I c + II c + I \frac{m}{y} + II \frac{m}{y}.$$

At the same time, the means of subsistence produced by the second category should not only satisfy the means of subsistence needed in the simple reproduction of the two major categories and the means of subsistence of the nonproductive personnel in the whole society, but should also provide the supplementary means of subsistence needed in the extended reproduction of the two major categories. This is represented as follows:

$$II(c + v + m) = I c + I \frac{m}{x} + II v + II \frac{m}{x} + I \frac{m}{z} + II \frac{m}{z},$$

which can be abbreviated as:

$$I(c + m - \frac{m}{x}) = I(v + \frac{m}{x}) + I \frac{m}{z} + II \frac{m}{z}.$$

The abovementioned relationship formulae are several extremely important relationship formulae in striving for a proportionate balance in social reproduction. From the above relationship formulae, it is not difficult to realize that the so-called net accumulation is in essence  $(I \frac{m}{y} + II \frac{m}{y})$ , while the so-called consumer accumulation is  $(I \frac{m}{z} + II \frac{m}{z})$ .

Secondly, we should look at the consumption fund. As consumption fund, its material content is the final product which is to be consumed by the individual residents and the collective in society. In examining the cycle of consumption, the consumption fund can be divided into two forms: One is daily expenses involving short consumption cycles and cumbersome items, such as the daily living expenses of the individual residents, the state's administrative management expenses, national security expenses, foreign aid expenses, and so

forth. This form of consumption is generally manifested in the consumption of that year. We call this consumption form of that year net consumption. The other form is expenses involving a long consumption cycle, such as the nonproductive capital construction involving housing, cultural, recreational and health service facilities, capital construction projects involving administrative organs and professional units, and national defense building as well as high-grade durable consumer products which the residents purchase. The characteristic of this form of consumption is a one-time investment and consumption year after year. We call this form of consumption accumulative consumption. In addition, the reserve of the means of subsistence for net consumption and accumulative consumption generally involves the reserve of that year and the use year after year. Thus, this reserve of consumer products is also listed under accumulative consumption. We should point out that the word "accumulative" in "accumulative consumption" has implicitly departed from the category of "accumulation" in the political economic definition which specifically refers to "accumulation" or "concentration" and has no direct relationship with extended reproduction.

In the process of social reproduction, net consumption and accumulative consumption consist of  $I v + I \frac{m}{x} + II v + II \frac{m}{x}$ . Here, we must point out that, excluding the housing quarters for individual residents, the consumption fund which involves nonproductive capital construction is taken from  $\frac{m}{x}$ . This is widely divergent from our habit of regarding the investment in nonproductive capital construction as accumulation fund, which is taken from  $m - \frac{m}{x}$ .

#### IV. Theoretical and Practical Implications

According to the scientific meaning of accumulation and consumption, we have divided the national income into accumulation funds and consumption funds, and have divided these ultimately into net accumulation, consumer accumulation, and net consumption and accumulative consumption. This embodies profound theoretical significance and practical significance.

First, in regarding accumulation as the source and necessary factor for extended reproduction, we will enable this category to conform more to the scientific rules of classical Marxism on accumulation.

"Accumulation" in political economy is different from "accumulation" in philology. The former refers to the supplementary investment and corresponding material reserve used in extended reproduction. The latter refers to the accumulation and concentration of general wealth in the realm of material production, and includes the accumulation of the fund used in extended reproduction as well as the accumulation of the property which is divorced from the final product of a production process. This accumulation of society's wealth has exceeded the parameters of accumulation in political economy. For instance, the investment in such nonproductive capital construction as public works has been completely divorced from the process of extended reproduction. Thus, the traditional classification of it under accumulation funds is obviously irrational. In particular, when we include the investment in nonproductive capital construction into the accumulation fund in practice, we will have blurred the boundary between accumulation and



consumption. Under general circumstances, the rate of accumulation, high or low, will reflect the extent of the expansion of the scale of production, and the rate of consumption, high or low, will reflect the level, high or low, of people's consumption. However, using the traditional method of classification, we will have taken a very important portion of the investment in housing, cultural and recreational facilities which reflects the level of consumption from the consumption fund and include it in the accumulation fund, which will have blurred the boundary between accumulation and consumption. Consequently, the level of accumulation and the level of consumption will not be truly reflected by the rate of accumulation and the rate of consumption.

After including the investment in nonproductive capital construction in the accumulation fund, we will put this portion of investment in an unimportant position. When the rate of accumulation is too high and we demand the reduction of accumulation, we can attain the goal of lowering the rate of accumulation by reducing the investment in nonproductive capital construction. This reduction of the rate of accumulation is in essence the lowering of the people's level of consumption.

Due to the confusion in theoretical division, a tendency in practice to emphasize production and slight livelihood will result. Since the nation's founding, the proportion of the investment in nonproductive capital construction in overall capital construction investment has dropped from 33 percent in the First 5-Year Plan period to 16 to 17 percent during the Third and Fourth 5-Year plans. As a result, for a long time, the people's livelihood has failed to improve, with crowded living space, inaccessible communications and backward service facilities. Many debts in livelihood are unpaid.

At present, according to the scientific meaning of accumulation, we have listed the investment in nonproductive capital construction under consumption funds rather than accumulation funds. This will gradually eliminate the abovementioned malpractice in theory and practice.

Second, listing the investment in productive intelligence under the category of accumulation fund is a significant advance in the understanding of the theory of accumulation.

To completely exclude investment in intelligence from the category of accumulation fund is a manifestation of theory lagging behind practice. With the development of the social productive forces and the penetration of science and technology into the various spheres of society, science and technology, which are the crystallization of mankind's intelligence, have become the decisive factors for the development, high or low, of the productive forces and the prosperity or decline of the economy. Thus, in modern society, the investment in productive intelligence has directly affected and determined to a great extent the scale and speed of extended reproduction. Such being the case, we should naturally include the investment in productive intelligence in the category of accumulation fund. This is a necessity in the integration of theory and practice and is a leap in the understanding of the theory of accumulation.



Third, the scientific division of the national income has enabled the rate and results of accumulation to conform to objective reality.

The rate of accumulation generally refers to the percentage of the accumulation fund in the national income. It is the index for measuring the scale of the expansion of reproduction. Thus, nonproductive investment does not conform to the rules of this index. If we arbitrarily include nonproductive investment in the accumulation fund, we will inevitably bring about a false rate of accumulation. For instance, our country's rate of accumulation was 31.6 percent for both 1972 and 1980. However, the proportion of productive accumulation in the gross amount of accumulation was 78.7 percent in 1972 and only 54.5 percent in 1980. If we delete the nonproductive investment which cannot expand the scale of production from the accumulation fund, and calculate only the productive accumulation in the accumulation fund as we advocate, then the rate of accumulation would be 24 percent for 1972 and only 17 percent for 1980. Only this rate of accumulation can truly reflect the degree of growth of the scale of production. It reflects the different rates of accumulation for 1972 and 1980, the former being 41 percent higher than the latter.

The index for measuring the results of accumulation is the coefficient of the results of accumulation. The coefficient of the results of accumulation gives the amount of national income contributed by the amount of accumulation of a unit. That is,  $\Delta(v + m)/m - \frac{m}{x} \Delta(v + m)$  refers to the amount of growth of the national income, while  $m - \frac{m}{x}$  refers to the accumulation fund. We know that the fund which can increase the national income can only be the fund used in the realm of production. The so-called "nonproductive accumulation fund" is a fund used in the realm of consumption and is unable to directly increase the national income. Thus, if we include the investment in nonproductive fixed assets and floating assets in  $m - \frac{m}{x}$ , then we will cause the numerator and denominator in  $\Delta(v + m)/m - \frac{m}{x} \Delta(v + m)$  to lose their categorical uniformity, which will result in a false coefficient of the results of accumulation.

Clearly, our confusion regarding the concept of accumulation and consumption has blurred the boundary between accumulation fund and consumption fund has caused the rate of accumulation and the index of the results of accumulation to deviate from objective reality. Ultimately, national income statistics will not be able to truly reflect the objective economic phenomenon.

9335

CSO: 4006/780

NATIONAL POLICY AND ISSUES

15 ECONOMIC LAWS, REGULATIONS PROMULGATED IN 1985

OW120858 Beijing XINHUA in English 0840 GMT 12 Sep 85

[Text] Beijing, September 12 (XINHUA)--China has promulgated 15 economic laws and regulations this year, according to the Economic Legislation Research Center of the State Council.

By the end of 1985, 60 more economic laws and regulations will have been submitted to the Standing Committee of the National People's Congress and the State Council for examination, an official from the center told XINHUA.

Many of the enacted laws and regulations concern Chinese-foreign economic activities, the official said. They include law on Chinese-foreign economic contracts, metrological law, regulations governing technological transfer, rules for implementation of patent law, regulations on import and export taxes, loan contract regulations, regulations on marine dumping management, regulations concerning management of foreign and Chinese-foreign banks in China and the provisional regulations on preferential treatment for investment in China by Overseas Chinese.

Among the laws and regulations being examined are state-owned enterprises law, labor law, postal law, law on prevention and treatment of atmospheric pollution, maritime law, customs law, the law governing Chinese-foreign cooperatively-run enterprises and the law governing the enterprises wholly owned by foreign investors.

Laws to be examined cover two categories: rules for the implementation of the enacted laws and a group of regulations concerning the ongoing nationwide reform of economic structure, the official said.

Of the regulations in the latter category, the regulations concerning internal joint ventures and cooperatively-run enterprises are drafted according to Premier Zhao Ziyang's direction, the official added.

CSO: 4020/361

PROVINCIAL AFFAIRS

HENAN GOVERNOR REVIEWS ECONOMIC SITUATION

HK250351 Zhengzhou Henan Provincial Service in Mandarin 1030 GMT 24 Aug 85

[Text] The provincial government convened its third plenary meeting today. Governor He Zhukang presided and spoke on the province's current economic situation and on the demands on work for the next few months.

Governor He Zhukang said: The province's economic construction continues to develop healthily, and the reforms are proceeding smoothly. There is a good chance that we will fulfill the planned tasks for the year. However, we must not slacken our efforts on that account. We must set new and still higher targets. We should strive for a 12 percent increase in financial revenue compared with last year, and an increase of more than 10 percent over the original plan for foreign trade and export volume.

He Zhukang said: We will have to make great efforts to achieve these targets. He demanded that the province concentrate on the following matters in the next few months: Continue to get a good grasp of reforms; do a good job in this year's production and construction; arrange market supplies well; develop horizontal economic ties; and seriously organize checks on taxes, prices, and the quality of products and services. We must strive for still greater achievements this year and also prepare for next year, to ensure that our work will make still further advances.

He Zhukang stressed in conclusion: We must improve our work style, seriously implement Comrade Hu Yaobang's comment on cadre work style, display the spirit of being responsible, do more practical deeds, regularly go into reality to investigate and study, and strengthen our sense of organization and discipline.

CSO: 4006/919

PROVINCIAL AFFAIRS

YUNNAN GOVERNMENT ARRANGES ECONOMIC WORK

HK050201 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 4 Sep 85

[Excerpts] The second plenary meeting of the Sixth Yunnan Provincial People's Government concluded in Kunming on 4 September.

The meeting pointed out: The province's economic situation has been very good this year. Total value of industrial output, total commodity retail sales, and financial revenue from January to July respectively rose by 18.9 percent, 30.4 percent, and 35.8 percent compared with the same period last year. New developments have occurred in rural diversification. The spring-sown crops are growing well. There are hopes of a big increase in peasant incomes.

The meeting proposed the following specific measures for grasping grain work, stabilizing market prices, and strengthening macroeconomic control and management:

1. Attach importance to developing the rural economy. In view of the many natural disasters this year, the government at all levels and the departments concerned must pay attention to the grain question, get a good grasp of harvesting the spring-sown crops, reduce waste, tend the late autumn crops well, and make prompt arrangements for the spring-harvested crops.

Readjustment of the rural production structure should be carried out in a planned and measured way on the basis of steady growth in grain output. The grain area should be correspondingly stabilized.

2. While pointing out that the province should get a good grasp of industrial and communications production, the meeting stressed that all enterprises must work hard to improve economic results, put quality first, and overcome trends of simply attaching importance to quantity and output value and neglecting quality.

3. The meeting proposed measures for further strengthening control and management over investment in fixed assets and over credits, strictly controlling the growth of consumption funds, ensuring financial revenue, and doing a good job in inspecting taxes and finances.

4. The meeting's measures for striving to maintain basic stability of market prices were as follows: Strengthen macroeconomic control and management; reduce the amount of currency in circulation; actively develop production and organize sources of supply; vigorously withdraw currency from circulation; bring into play the leading and organizing role of state-owned commerce over the markets; and strictly control commodity prices.

The meeting stressed: No more measures for increasing prices will be tabled in the province in the last 4 months of the year. No new hikes will be arranged for prices controlled by the government and its various departments. In accordance with the arrangements of the central and provincial CPC committees, it is necessary to regard curbing the malpractice of indiscriminate price hikes as an important aspect of second-stage party rectification.

Governor He Zhiqiang spoke on the question of carrying out investigation and study. Vice Governor Chen Liying presided at the meeting on 4 September. Vice Governor Zhu Kui delivered a summation.

CSO: 4006/937

PROVINCIAL AFFAIRS

BETTER OFF PEASANTS HELPING POORER NEIGHBORS

OW061052 Beijing XINHUA in English 0944 GMT 6 Sep 85

[Report by XINHUA correspondent Xu Yidao]

[Text] Beijing, September 6--"Never forget others" is the watchword for many Chinese peasants who have become better-off in recent years.

Most of them are engaged in commodity production and services. China's current policy is to encourage rural households to do so, a big change from the old practise whereby peasants were tied to grain production.

According to statistics last year, there were five million such households, accounting for 15 percent of the total in the countryside.

They usually earn more than others because of their hard work, skills or experience in management. But many of them have become known far and wide not because of this but because of their attitude toward others less well-off than themselves.

One example is Guo Yuanying, 39, a peasant in the suburbs of Zhengzhou, capital of Henan Province, who set up a very successful textile accessory factory. Last year, he bought his township an ultra-light plane worth 19,500 yuan. The plane has been used to spray pesticides and fertilizers on local fields.

He was selected as one of the 10 newsmakers of 1984 by "Fortnightly Chat", an influential Chinese magazine.

Another example was set by Shan Shipeng and Zhong Jiapeng, two peasants in Tianchang County, Anhui Province.

They set up a factory five years ago and have allocated 100,000 yuan from the factory's profits to set up an old people's home in the village.

Shan was reported to have said: "An honest man should always have in mind the interests of others."

Yuan Qinghe, 41, a peasant in Shehong County, Sichuan Province, started an orphanage last March. He provided 4,000 yuan a month for the 35 orphans between five and 12 and the teachers.

Yuan, an orphan himself, earns quite a lot by contracting construction projects.

Many better-off peasants have donated money for local schools. This is especially so in Jiangsu, Anhui, Shanxi, Liaoning, Zhejiang and Sichuan Provinces.

According to statistics from Hebei, Hubei, Shandong, Guangdong, Anhui and Liaoning Provinces, the households have set up libraries, theaters, cinemas and other cultural facilities which charge local peasants very little or nothing.

CSO: 4020/361

PROVINCIAL AFFAIRS

BRIEFS

JIANGXI INDUSTRIAL GENERAL SURVEY--Preparations for an industrial general survey in our province have been completed and initial results have been achieved in experimental surveys at selected points. As of the end of July, most of the 11 prefectures and cities, 102 counties, all bureaus and companies directly under the provincial government, and central government units assigned to Jiangxi have set up industrial general survey organizations. Over 60 cities and counties have conducted experimental surveys at selected points. At the provincial meeting of industrial general survey office heads which ended yesterday afternoon, Qian Jiaming, vice governor and head of the provincial leading group for industrial general surveys, called on all localities and departments concerned to strengthen their leadership, reinforce their general survey units, and carefully conduct experimental general surveys at selected points in order to make full preparations for the second nationwide industrial general survey in the first quarter of next year. [Text] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 22 Aug 85 OW]

JIANGXI LAND MANAGEMENT COMMITTEE--The Jiangxi Land Development and Management Committee [JLDMC] held its first plenary meeting in Nanchang last evening. Land development and management is an important basic task for achieving the four modernizations. The Jiangxi Provincial Government recently decided to set up the JLDMC with Ni Xiance, governor of Jiangxi, as its chairman, and Zhang Fengyu, (Wang Ye), (Tang Chusheng), and (Liu Chuxun) as its vice chairmen. The plenary meeting, which was chaired by Comrade Li Xiance, heard a report on land development and management in Jiangxi over the past 2 years and studied issues concerning land development and management in the future. The meeting decided to appoint Zhao Zengyi, chairman of the provincial advisory commission, as honorary chairman of the JLDMC, and Yu Guangyuan, a noted economist, as chief adviser to the JLDMC. The meeting also decided to invite Yu Guangyuan to head a study group of the China Land Economic Research Institute to conduct a land economic study in Jiangxi. [Text] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 31 Aug 85 OW]

TIANJIN RURAL ECONOMY--In the first half of the year, Tianjin had a record high in agriculture, forestry, animal husbandry, sideline occupations and fishery. Wheat output reached 804 million jin. The afforestation area increased by 64.5 percent over the corresponding period in 1984, and the amount of hogs increased by 15.1 percent. The purchased volume of eggs reached 78 million jin, a 34.9-percent increase over the corresponding period in 1984. [Summary] [Tianjin TIANJIN RIBAO in Chinese 20 Aug 85 p 1 SK]

CSO: 4006/937



## ECONOMIC DEVELOPMENT ZONES

### BRIEFS

**HAIKOU IMPORTS EQUIPMENT**--This year Haikou City has shifted the focus of industrial production to bringing in advanced technology and equipment to transform the existing enterprises and develop new products. With the help of the central and provincial departments concerned, the city is now carrying out 18 technological transformation projects with the total investment amount of 24.6 million yuan. In carrying out technological transformation this year, Haikou City has put stress on expanding and modifying the existing enterprises in the fields of rubber, food, drinks, plastics, garments, and furniture and on developing new products in the fields of electronics, electrical machinery, hides processing, pharmacy, and chemical fibers so as to build an industrial structure with local features, make enterprises more competitive, and increase their ability to earn foreign exchanges. In addition to the 18 technological transformation projects which will soon start, this year the relevant central and provincial departments have arranged 2 to 3 technological transformation priority projects for the city and have allocated a total of 35.5 million yuan to the city including the loan target for investment, the foreign exchange target covered by the plan, and subsidies. [Text] [Haikou Hainan Island Service in Mandarin 0400 GMT 23 Aug 85 HK]

**HAINAN'S IMPORT, EXPORT VOLUME**--The import and export volume of the region's 10 major goods has increased steadily. The region imported and exported a total of 2.95 million tons of the 10 major goods in the first half of this year, overfulfilling the target by 43 percent and marking an increase of 15 percent over the same period last year. The region mainly imported coal, grain, cement, chemical fertilizer, steel and iron, and mining construction materials, and mainly exported sugar, rubber, iron ore, and salt. [Excerpt] [Haikou Hainan Island Service in Mandarin 0400 GMT 19 Aug 85 HK]

**FUJIAN JOINT VENTURES**--By the end of June this year, Fuzhou had signed 43 joint ventures and cooperation projects with foreign countries, involving a total investment of over \$22.94 million, an increase of over 63.5 percent over the same period of last year. Of these 43 projects, 32 were joint ventures and 11 were cooperation projects. [Summary] [Fuzhou FUJIAN RIBAO 22 Jun 85 p 1 OW]

CSO: 4006/917

ECONOMIC PLANNING

HUBEI OFFICIAL ON PLAN IMPLEMENTATION FOR FIRST HALF OF 1985

HK120819 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 10 Sep 85

[Text] Mandated by the provincial government, Xiao Quantao, director of the provincial planning committee, made a report to the 15th meeting of the 6th provincial people's congress standing committee this morning on implementation of the economic and social development plan for the first half of 1985 for the province and the fulfillment of the major targets for the annual plan.

The report disclosed that the province's economic situation was excellent in the first half of this year. Reforming the economic system and opening up to the outside world have given new vitality to the economy; social production has developed continuously; economic construction is developing more rapidly; and markets are becoming more and more brisk and lively. The province's economy is developing healthily along the road of reform.

However, there have also appeared at present some new situations and problems which should be solved urgently. The main problem is that despite the control over the excessive growth in consumption funds, the growth rate is still very high. The level of fixed asset investment not covered by plans is too large, beyond the abilities of financial and material resources. Industry has developed too fast, and the excessively high growth of the machine-building industry in particular has adversely affected the quality of products of some enterprises. The plan for foreign currency income from exports business has not been fulfilled, and the cost of earning more foreign currency has increased.

The report said that 1985 is the last year of the Sixth 5-Year Plan and it is necessary to firmly grasp the year so as to completely fulfill the main targets set in this year's plan and various tasks set in the Sixth 5-Year Plan.

Economic departments at all levels and all enterprises in the province must seriously implement various measures put forth at the regional planning conference; further implement the spirit of planning conferences of some cities and prefectures; continue to grasp macrocontrol; strengthen control over the level of fixed asset investment, consumption funds, loans, and foreign exchange; seriously and effectively grasp the current work of combating

natural disasters; try by every means to ensure a complete bumper harvest in this year's agricultural production; continue to focus on raising economic efficiency; vigorously develop the production of fine products; continue to make good arrangements for the supply of goods in the second half of this year; stabilize market prices; and fulfill or overfulfill this year's plan in an all-round way.

CSO: 4006/937

ECONOMIC PLANNING

HUNAN PEOPLE'S CONGRESS MEETING HEARS ECONOMIC REPORTS

HK050227 Changsha Hunan Provincial Service in Mandarin 1100 GMT 4 Sep 85

[Excerpts] The standing committee of the 6th provincial people's congress standing committee convened its 15th meeting this morning with Chairman Jiao Linyi presiding.

Ge Hua, chairman of the provincial planning commission, delivered a report on readjusting the province's national economic plan for 1985. Ge Hua said: In accordance with the central authorities' intentions on controlling the scale of investment in fixed assets, consumption funds, credit funds, and the use of foreign exchange, Hunan has readjusted and reduced its investment by 89.1 million yuan. At the same time, it has also readjusted and cut its import plans, reduced the use of foreign exchange for import of ordinary materials, and postponed or cancelled the import of 20 projects.

Ge Hua also gave an explanation on the construction and expansion of breweries and on urban bridge construction plans.

(Ma Ri), director of the provincial prices bureau, gave a report on price reform and the current state of market prices. (Ma Ri) said: This year the province has lifted price restrictions on pigs, basically harmonized rural grain prices, and suitably raised fares for short-distance passenger and freight traffic on the railroads. These three price reforms have been fully implemented. Generally speaking, progress has been relatively smooth, and there has not been much fluctuation in the markets. These measures have played a positive role in stimulating the development of production and structural readjustment, speeding up commodity circulation, and invigorating the urban and rural economy.

(Yu Youliang), deputy director of the provincial auditing bureau, gave a report on auditing work in the province. In the past 2 years, simply through auditing financial revenue and expenditure, the auditing organs in the province have unearthed a total of 222.58 million yuan in ill-gotten gains. At present, in coordination with the departments concerned, we must continue to check on and correct new unhealthy trends in the economic field.

CSO: 4006/937

ECONOMIC PLANNING

SHANDONG CONFERENCE ON TECHNICAL TRANSFORMATION PROJECTS

SK290419 Jinan DAZHONG RIBAO in Chinese 9 Aug 85 p 1

[Text] At the recent provincial technical transformation conference held in Changyi County, it was pointed out that industrial and communications enterprises throughout the province should follow the principle of acting according to our capacity, placing emphasis on major areas and giving the priority of arrangements to the best projects in completing the technical transformation projects for this year and in making plans for next year's projects so as to create a good beginning for the technical transformation for the "Seventh 5-Year" Plan period.

The conference summed up our province's technical transformation achievements scored during the "Sixth 5-Year" Plan period, conscientiously analyzed the current new situation, and set forth four tasks which should be fulfilled with concentrated efforts at present.

First, we should work out plans for this year's technical transformation projects. In our province's technical transformation work, too many projects not covered by plans have appeared since the beginning of this year to effect the planned scope. This calls for a proper readjustment and bringing under control the scope of investment in fixed assets. Under such circumstances, all cities, prefectures, and departments should adhere to the principle of ensuring key projects and ensuring their completion to build the approved projects and use well the funds within the prescribed scope, and strive to make more projects completed, go into operation, and yield benefits within this year.

Second, we should emphasize key projects, act according to our capability, and conscientiously work out plans for next year's technical transformation. In the first place, we should make sure that the projects to be continued next year are completed next year. Then we should examine the projects which were discontinued or whose construction was not approved this year, and try to make arrangements for their construction next year as long as they are provided with necessary conditions. And then we should conduct repeated screening and work out plans for the new projects that should be started urgently next year.

Third, we should further make a success of reform and invigorate technical transformation through the microeconomic enlivening and macroeconomic control. In the microeconomic enlivening, we should, in general, further improve the series of reform measures and policies we have adopted since last year, and grant more policy-making power and autonomy to enterprises in terms of technical transformation. In the macroeconomic control, we should emphasize guidance to plans, and use economic and administrative means to rationally regulate the orientation of enterprises' investment in technical transformation so that enterprises can be more compatible with the interest of the overall situation.

Fourth, we should strengthen the unified control over technological import, and strive to export as well as import, and create foreign exchange as well as using foreign exchange.

This conference was held by the provincial economic commission, financial department, industrial and commercial bank, construction bank, and the Qingdao branch of the Bank of China from 1 to 7 August.

CSO: 4006/919

ECONOMIC PLANNING

DEVELOPMENT PLANS BEING DRAWN UP FOR BEIJING

OW121446 Beijing XINHUA in English 1435 GMT 12 Sep 85

[Text] Beijing, September 12 (XINHUA)--Beijing authorities are drawing up a long-term development program aimed at turning the capital into a model city.

The public, district authorities and corporations are all being asked to contribute ideas for the plan, which could take up to three years to produce, today's "Beijing Daily" reported.

The newspaper said it was becoming "increasingly urgent" to solve key long-term development problems. Changes in the capital would have a "strong impact" on the modernization drive.

Planners will tackle the problems of population control, traffic congestion, the protection of the old town area as modern construction takes place, environmental improvement and the raising of development funds.

At a meeting on Wednesday, Beijing Communist Party Secretary Li Ximing and Mayor Chen Xitong called on citizens to contribute creative thinking to the city plan.

The overall program will be split into 10 parts covering such things as the development of industry, agriculture, service trades, foreign trade, science and education.

The municipal government has set up groups of specialists to concentrate on each area of development.

A general plan is expected to be produced in 12 months, but the detailed program could take another two years to draw up.

CSO: 4020/361

AGGREGATE ECONOMIC DATA

RAPID GROWTH MAKES ECONOMIC STRUCTURE 'MORE RATIONAL'

OW130734 Beijing XINHUA in English 0639 GMT 13 Sep 85

[Text] Beijing, September 13 (XINHUA)--The rapid growth of agriculture, light industry and service trades in tandem has made China's economic structure more rational in the last four years, but new imbalances could emerge, according to the latest statistics.

The State Statistics Bureau reported that in the first four years of the Sixth Five-Year Plan (1981-1985), agriculture and light industry grew 11 and 10.5 percent each year, respectively, compared to 3.2 and 9.1 percent before 1978. The growth rate of heavy industry, which used to be an overstressed sector, declined from 13.6 percent to 7.7 percent.

As a result, the proportion of agriculture in the total output value rose from 27.8 percent to 34.8 percent in the period.

While crop production has increased rapidly in the past four years, forestry, animal husbandry and fisheries accounted for a slightly bigger proportion in agriculture.

In industrial output value, light industry accounted for 50.1 percent in the first half of 1984, against 49.9 percent for heavy industry.

Readjustment of the economic structure has helped improve living standards of both urban and rural residents.

The statistics show that, though the relationship between accumulation and consumption has been coordinated, it has not been stabilized yet.

Moreover, though the service trades have grown at an annual rate of 11.5 percent in the past four years, compared to 5.3 percent before 1980, they are still weak links. Citizens often complain of inconveniences in transportation, hairdressing, grocery shopping, etc.

The bureau said more efforts should be made to ensure a long-lasting, stable and coordinated development of the national economy.

CSO: 4020/361



ECONOMIC MANAGEMENT

GUANGZHOU STRENGTHENS CONTROL OF COMMODITY PRICES

HK121237 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 11 Sep 85

[Text] This morning, the Guangzhou City People's Government held the first news release meeting at which (Yang Xiliang), director of the Guangzhou City Commodity Price Bureau, introduced the current situation in commodity prices in Guangzhou City and in the measures taken by the city government.

He said: With a view to further strengthening control over the commodity prices, the city government has decided to take the following four measures:

1. It is necessary to strengthen macroeconomic control and to strive for a basic balance in finance, credit, materials, and foreign exchange.
2. It is essential to adopt contract method and to strictly control the continuous rise in commodity prices. The city government has demanded that in the last 4 months of this year, all relevant commodity prices and charges must be basically stabilized on the current levels and must not be raised any more. In particular, the prices of nonstaple food, vegetables, and pork must be stabilized.
3. In the last 4 months of this year, no new measures for raising prices must be put forward.
4. It is imperative to continuously inspect and supervise the commodity prices in the markets and to resolutely curb the unhealthy trends of indiscriminately raising prices and indiscriminately levying charges. The city government has decided that in September and October, a large-scale inspection of commodity prices throughout the city must be conducted. Those who violate the Guangzhou City provisional regulations on control over commodity prices must be severely dealt with.

CSO: 4006/937

FINANCE AND BANKING

QUESTIONS ON GROSS NATIONAL PRODUCT ANSWERED

Shanghai SHANGHAI KUAIJI [SHANGHAI ACCOUNTING] in Chinese No 6, 25 Jun 85  
pp 35-36

[Article by Min Zhongyuan [7036 1813 3220]: "Questions and Answers on the  
'Gross National Product'"]

[Text] 1. What is the "gross national product"?

"Gross national product" [guomin shengchan zongzhi 0948 3046 3932 3934 4920 0237] refers to the currency value of all products and labor services produced and provided by all sectors in a country or region within a given period of time. It is the most general and significant index for comprehensively reflecting economic activity. It occupies a very important position in the national economic accounting systems of Western countries. According to data published by the United Nations, 154 countries and regions in the world utilize this index. Its advantages are that it deducts the converted value of the objects of labor; that is, it excludes the repeated calculation of intermediate products. Also, there is little exaggeration and it can quite accurately and objectively reflect the level and rate of development in all sectors of the national economy. At the same time, it not only includes material product value in the production sector, it also includes the value of labor services provided by circulation, service, science and technology, culture, education, public health, finance and other tertiary industries. It is a full and comprehensive report of labor activities in all sectors. Moreover, it makes it possible to carry out extensive comparative exchanges on an international level. Since this index has already been adopted by the majority of countries in the world, the membership fees collected by the United Nations and the interest rate set by the World Bank are based on the level of the "gross national product." The English rendering of this term is gross national product (abbreviated GNP).

2. Why is Shanghai the first in the country to institute a "GNP" statistical reporting system?

When approving and transmitting the notice on the principal points of the Shanghai economic development strategy report, the State Council pointed out: "Shanghai must fully utilize beneficial conditions at home and in opening up to outside trade, develop its superiority, attract and adopt

advanced technology, transform traditional industries and gradually improve basic facilities and the investment environment. It is necessary to establish a benign cycle as rapidly as possible before 1990, to strive to establish Shanghai as a highly civilized, modern socialist city that is open and that has numerous functions, with a rational industrial structure and advanced science and technology." According to this spirit, Shanghai must strive to develop tertiary industries, change the industrial structure and rapidly establish a benign cycle. However, the comprehensive indices currently in use for reflecting economic levels are gross value of industrial and agricultural output [GVIAO] and national income. These two indices only reflect the production results of material production sectors and fail to reflect the results of tertiary industries. Consequently, following the restructuring of the urban economic system, the original indices not only fail to reflect the extent of reforms, they are also detrimental to the development of tertiary industries. Thus, it is necessary to find an index that can comprehensively reflect the results of all industries and sectors, that corresponds to the open door policies and that is comparable with indices used by other countries. GNP is a comprehensive index that both reflects the results of all industries and sectors and can be internationally applied. Shanghai will be the first in the country to institute a GNP statistical reporting system. It will be the principal index for evaluating economic work in Shanghai. Changing from the original GVIAO and national income indices to the principal GNP index is not merely changing one index but rather a development away from favoring industrial production and toward a diversified economy. It reflects the change in the key points of Shanghai's economic strategy and is a significant aspect of the current restructuring of the urban economic system.

### 3. How is "GNP" calculated?

Western methods of calculation roughly fall into the following three categories:

(1) The sector method, also known as the production method. Starting from production, the GNP is obtained by adding together the added value of all sectors of society after going through production and the value of services provided. This method reflects the sources of GNP.

(2) The end product method, also known as the expenditure method. Proceeding from product use, the GNP is obtained by adding together end product expenditures minus imports. Western statisticians believe that when there are no imports the end products produced by a given country are restricted to four areas: a) goods and services purchased by an individual; b) goods and services purchased by governments; c) fixed capital investments and additional reserves; and d) exports. The values of these four areas of utilization are expressed by: a) individual consumption expenditures; b) government consumption expenditures; c) total domestic investments; and d) export volume. The sum of these four values forms the GNP. This method reflects the direction of national expenditures.

(3) The revenue method, also known as the cost method. Starting with revenue, GNP is obtained by adding together all income from production, that is, profits, indirect taxes (product tax, business tax), employee remuneration and fixed asset consumption (depreciation).

The above mentioned three methods were all established by Western nations according to their specific conditions. China's economic and management systems differ from theirs. We must act according to conditions in China and adopt a computation method suited to our system. During the 1984 Shanghai GNP survey, we integrated the actual conditions of the city and formulated a survey plan that basically uses the revenue method of calculation.

#### 4. How do basic level units calculate "GNP"?

GNP is a macroscopic concept and when each basic level unit, department or office completes and compiles data it is referred to as "added value." Then, after each level has compiled data the sum total of all added value is obtained. The GNP is established on the basis of the added value of each basic level unit.

The added value of basic level units, as stipulated by the Shanghai 1984 survey plan, consists of real figures during the reporting period for six items, namely, profits, taxes, wages, employee reserve funds, depreciation, and other. (1) Profits: In enterprise units this generally refers to profits from sales (business profits), plus other profits from sales, plus revenue outside of business, minus the net profits after noncommercial expenditures, that is, the total amount of financially reported profits. (2) Taxes: This refers to all taxes prior to reckoning the gross amount of profits. It generally includes the industrial and commercial tax, the product tax, the value added tax, the urban real estate tax, the vehicle and vessel license tax, and the special cooking oil tax. This does not include the income tax and the readjustment tax. (3) The gross amount of employee wages: Each enterprise and public agency unit may refer to the gross amount of wages filled in on the labor wage report form. However, in order to avoid duplication, it is necessary to deduct wages paid from the employee reserve fund and wages and bonuses paid from enterprise retained profits. (4) Employee reserve funds: This generally refers to the amount withdrawn according to the gross amount of wages as stipulated by the state. (5) Depreciation: This refers to the fixed asset depreciation fund withdrawn during the current year. (6) Other, primarily includes two parts: first, retirement (resignation) funds for staff and workers from production expenses or retirement (resignation) funds for individuals from individual and noncommercial payments; second, net income from technology transfer and consulting services not included in the gross amount of profit.

#### 5. What is the connection between the establishment of a "GNP" statistical reporting system and work in financial accounting?

In terms of significance and classification, the "GNP" index falls under the category of production statistics; however, the items of calculation

are basically financial data. Consequently, statistical and financial accounting departments in all units must be closely joined. They must combine efforts and strive together to correctly and satisfactorily compute this index. As mentioned above, because this is an index from the Western system, the current state of financial accounting cannot meet the demands of establishing a GNP statistical reporting system. Therefore, it is also necessary to carry out reforms in financial accounting. Responsible persons in the Shanghai Bureau of Finance expressed the view at the 1984 GNP survey meeting that in order to collaborate on establishing the GNP statistical reporting system, it is necessary to make corresponding additions and improvements on accounting and financial reports. One can clearly see the close connection between establishing a GNP statistical reporting system and financial accounting departments. It is necessary to coordinate computations and provide data. It is also necessary to prepare reforms, meet demands and gradually unify accounting and statistical tabulation.

9864

CSO: 4006/873

## FINANCE AND BANKING

### VIEWS ON ENCOURAGING INDIVIDUAL CONSUMPTION DISCUSSED

Taiyuan SHANXI CAIJING XUEYUAN XUEBAO [JOURNAL OF SHANXI FINANCE AND ECONOMICS COLLEGE] in Chinese No 3, Jun 85 pp 14-17

[Article by Zhang Jianwen [1728 1696 2429]: "Different Views on Encouraging Individual Consumption"]

[Text] Recently, in our country's economic theory circles and in news propaganda, the following viewpoint has been advanced: at the present stage, China should vigorously encourage and advocate consumption. Otherwise, production development will be obstructed, the fulfillment of financial revenue tasks will be affected, and commodity circulation will be slowed down. Some even maintain that consumption embodies more positive significance than saving. Consequently, people have established the new notion that "consumption also supports the socialist construction." I hold several different viewpoints, which I will spell out below.

#### I. Encouraging Consumption Is Determined by the Nature of Socialist Production Relationships

The nature of individual consumption is determined by the nature of the relations of production. Under the capitalist system, when the worker wants to obtain the means of subsistence, he must sell his own labor as a commodity to the capitalist. There, the worker obtains wages, which he uses to realize his level of consumption, the lowest limit of need being to sustain the reproduction of his labor power. Like adding gasoline to engines and coal to the steam engine, that which is in excess of this limit is a form of waste for the capitalist. Thus, the consumption by the worker is limited to an extremely narrow sphere, and has no direct dependent relationship with the development of the productive forces and the growth of the national income in a capitalist society. The goal of socialist production is to satisfy to the greatest extent the daily growing material and cultural needs of men. It is on this basis only that we can justly and forcefully encourage individual consumption and enable the people's standard of living to gradually improve with the development of production.

Nevertheless, in seeking the theoretical basis for encouraging consumption, some articles have quoted Marx, saying: "Without production, there is no consumption. However, without consumption, there is no production either, for

production will have no purpose." I maintain that the identical nature of production and consumption which Marx talks about here is insufficient for encouraging consumption.

First, what Marx talks about is, in general terms, the entire process of production--a theoretical abstraction which does not involve the qualitative rules of society. Thus, the direct identification of production with consumption mentioned in Marx's book does not exist in real life in our society.

When Marx says that production is identical to consumption, he refers not only to the consumption of the means of production but also of men's labor power in the process of production. In saying that consumption is identical to production, he means that, after the individual has consumed the means of subsistence, he creates a subject--a well-developed person with physical strength and intelligence. If by saying "without consumption, there is no production" Marx means that there is no production without the consumption of even labor power and the means of production, then the concept is not difficult to understand. The question is: Is there a direct identity between production and consumption in real life in our society? We know that, under the terms of a commodity economy, the articles of daily use produced do not enter directly into the realm of individual consumption, but must go through the intermediate purchase and sales stage from W to G, by means of the principle of exchange of equal value. This way, putting aside such elements as design and color, variety and quality, the key to whether or not a consumer product can fully enter the realm of consumption lies in whether or not there is unanimity between the availability of the commodity (consumer good) and the monetary purchasing power in the hands of the consumer. If purchasing power is greater than the availability of a commodity, demand will exceed supply in the market when production fails to satisfy consumption. Conversely, supply will exceed demand when production fails to be fully converted into consumption. We can see that, in our actual economic lives, production is not identical to consumption, but is linked by money, which gives expression to relationships among men. In the final analysis, this money is obtained by the laborer through distribution according to different social systems.

Second, when Marx talks about the identity of production and consumption, he also includes the fact that production can provide the materials and subjects of consumption. This is an indirect emphasis on the necessity for extended reproduction. Furthermore, whether or not extended reproduction can be carried out smoothly does not rely on the level, high or low, of individual consumption. That is to say, as long as the arrangement for the various sectors of the national economy conforms to the proportionate requirements, whether or not we encourage consumption, we can still guarantee the smooth institution of extended reproduction and consequently identify production with consumption.

Perhaps some people will ask: Under the capitalist system, does not economic crisis break out as a result of the antagonistic contradiction between infinite extended production and the relative reduction of the demand for spending by the laboring people? Yes. We do not deny that this contradiction is the direct cause for the inevitable outbreak of economic crisis. However,

we absolutely must not conclude from this that as long as the workers' level of consumption improves, capitalist economic crisis can be prevented. A low level of consumption has been a constant historical phenomenon for several thousand years, while economic crisis has taken place only after capitalism. The attempt to explain the existence of crisis with "the theory of insufficient consumption" is a great invention of the petty bourgeois economist Sismondi. The root of capitalist economic crisis is the contradiction between the socialization of production and the private ownership of the means of production. This contradiction has first of all seriously undermined the various proportionate relationships needed in reproduction. The role of economic crisis is to arbitrarily restore this proportionate relationship. Thus, the solution to encouraging individual consumption does not lie in the identical nature of production and consumption.

Third, the identical nature between production and consumption which Marx talks about has another layer of meaning, which is, consumption creates the motive force for production and is the goal of production. Consumption enables a product to ultimately become a real product. As mentioned above, this universal truth will have different manifestations in different societies. In slave society and feudal society where the natural economy prevails, the direct goal of production is indeed consumption, and consumption indeed has motivated production. However, the consumption which plays such a role is actually not the consumption of the broad masses of laboring people but is that of the slave-owning class and the feudal ruling clique. Their consumption needs no "encouragement" whatsoever. In capitalist society, the entire production process again revolves around whether or not one can obtain the greatest degree of surplus value (or profit). Production, which has consumption as its original goal, now has profit as its goal. If the capitalist fails to obtain a definite amount of profit, he will choose to destroy the commodity without any consideration for popular consumption. Thus, if we do not proceed from the nature of the relations of production, and maintain that any form of encouragement of consumption can play the role of developing and promoting production, then we have indeed simplified the issue.

## II. Individual Consumption Can Both Promote and Inhibit Production

First, whether it involves category I or category II, extended production must take as its prerequisite a definite quantity of material reserve. The improvement of individual consumption will provide a broad sales market for extended social production. In addition, after it is realized, consumption can again prepare the necessary labor power for the process of production. However, it will not directly add any means of production to the process of production. Thus, under normal circumstances, every year we can enjoy a considerable surplus of such materials as steel, cement, chemical fiber and grain. Then, we can fully improve step by step the people's purchasing power (primarily manifested as growth of individual income) and stimulate the production of consumer goods. As a result, we will have improved the people's livelihood and promoted production. However, if our country is faced with the difficulty of a shortage of materials, we will only create greater tension in material supply if we arbitrarily encourage consumption by departing from our material basis. We can imagine the consequence of "killing the chicken to



obtain the egg." Thus, we must have the grounds for saying that encouraging consumption can promote production. Departing from that definite basis, we will obstruct production by encouraging consumption.

Second, consumption is directly related to the material interest of the people. Thus, encouraging consumption can mobilize to a great extent the enthusiasm of the laborers in production. This is when the encouragement of production is beneficial to production. However, consumption and production, after all, are two different actions. From the standpoint of material transformation, after having consumed labor power and the means of production, production creates another use-value for society. From the standpoint of value, it not only has preserved the original value but has added a newly-created value. Consumption, however, is fulfilled purely by "consuming" the results of production. Consumption and accumulation complement each other. The higher the level of consumption, the more things are removed from society, and the fewer the gross products of society which can be accumulated for use in extended reproduction. Thus it becomes an issue of long-term interest and short-term interest. If we only consider our short-term interest and not our long-term interest, then, in the final analysis, we will dampen the enthusiasm of the laborers, which certainly will not contribute to production.

### III. Encouragement of Consumption Must Take Into Consideration the Transformation of Partial Labor Into Total Social Labor

Some people suggest that, currently, in our country's commercial stock, there are many articles of daily use that are stockpiled. If we adopt the method of encouraging individual consumption, we can let these commodities "come alive." This not only will bring into full play the efficacy of the commodities, but will also accelerate commodity circulation. Why not go ahead with it? I feel that this is a specious viewpoint, for partial labor [jubu laodong 1444 6752 0525 0520] still exists in our country. For the enterprises, whether or not the labor which they expend in the production of commodities can be recognized by society and transformed into part of the total labor in society must be proved through exchange. If the commodities are smoothly sold, it signifies the fact that the use-value produced by the enterprises has been realized as use-value in society. Hence, the contradiction between partial labor and overall social labor will also have been solved. Conversely, if the commodities cannot be sold, then partial labor will not have been transformed into social labor. This situation will compel the enterprises to readjust at any time their production structure or production orientation in order to avoid the passive state of "having unmarketable goods."

Putting aside such commercial sector issues as lowering commodity prices, advertisement and propaganda, and sales, currently the stockpiling and unmarketability of our country's commodities are in great part due to the contradiction between partial labor and social labor. Under this circumstance, if we encourage consumption in a onesided manner in an attempt to accelerate commodity circulation, and if we do not hesitate to employ the means of selling on credit by eating next year's goods in order to stimulate consumption, then we are only covering up the contradiction, which will undermine the normal role of the market in giving feedback on production. This will build up bit by bit the antagonistic energy of the two contradicting

parties in the midst of "prosperity." Once consumption can no longer absorb those commodities which should not have been produced in the first place, contradictions will abound. The loss incurred at that point in time will be far greater than the loss caused by the stockpiling and unmarketability of commodities at this point.

The following are the primary factors effecting the transformation of partial labor into social labor in the production of consumer products:

1. The level of development of social productive forces. This is the material basis for encouraging consumption.
2. Proportions of accumulation and consumption. When the national income is a constant figure, lowering the accumulation rate and raising the consumption rate can raise demand among consumers who have spending capability. Consequently, more consumer goods will be permitted to enter the realm of consumption.
3. The rate of economic development stipulated by the state in a certain period of time. The higher the goal of economic development stipulated by the state, the fewer the means of subsistence.
4. The composition of a nation's tradition, patterns of consumption, and population. This is primarily a demand that the design and color, variety, specifications and quality of the consumer products must meet the needs of the market.

#### IV. We Must Not Downplay the Role of Savings While Encouraging Consumption

Consumption and savings each have their own positive significance. They are not mutually replaceable. We cannot say one is more important than the other (of course, the individual always guarantees his needs for food, clothing, housing, use and transportation before he considers savings). If we must say which is more important, then, in terms of the collection of construction funds by the state, savings is undoubtedly more important than consumption.

Savings are the state's liabilities. In essence, the residents temporarily give up their right to ask for commodities and resign their purchasing power to the state. The term of deposit for each depositor is limited. However, in view of the whole society, the bank always maintains a stable balance. At this point, the pressure of the market has been reduced. The state can use the surplus manpower, material resources and financial resources to develop economic construction and cultural construction. According to statistics, at the end of 1982, the balance of deposits of our country was 67.5 billion yuan, 15.9 percent of the amount of use of our national income for that year and higher than the gross amount of investment in capital construction. This amount of funds should not be ignored.

Some people say that consumption can ultimately realize the value of a commodity, which will provide real taxes and profits for the state and which will at the same time play the role of raising funds. Few realize that when state finance receives this revenue, the commercial sector has also supplied

the market with twice as many commodities (this is because  $C + V$  has constituted the greater percentage of the commodity value, while  $m$  has constituted only a small percentage). The funds which the state obtains from the channel of savings are different. Besides a small interest rate, there are no other payments.

In addition, some people are worried that after the interest rate for savings has increased, the increase in savings will easily bring about hidden trouble, which will not be favorable to encouraging consumption under the new situation. This worry is needless.

First, although savings is known as "a tiger in a cage," in the absence of war, vicious monetary inflation, political crises that shake society and other such major changes, this "tiger" will not get out of the "cage." Thus, as long as we correctly implement the principle and policy of the party and state, savings can only be good for the country's economic construction. Besides, some savings are monetary funds prepared by the individual economy for expanding production or circulation. This in itself is a positive factor.

Second, how much income people use for consumption and how much they put into savings are not solely affected by the interest rate, but are determined more by wage levels and the social welfare system. Our country's wage levels are rather low and the peasants' per-capita income small. It is not easy to purchase a high-grade consumer item or housing. It will take a lot of savings before one has enough. Furthermore, expenses incurred in such major events as birth, aging, illness and death as well as schooling, employment and marriage are not totally handled by society. People must "save up for rainy days."

In short, in today's real life, no one will starve to save money as a hobby. No one will refuse to be involved in consumption because he regards it as a punishment. No one is ignorant of what consumption is and awaiting others to inspire and educate him. There is a definite contradiction between savings and consumption. We must regulate the two properly and must not solve the contradiction by encouraging consumption and downplaying savings.

Summarizing the above, encouraging individual consumption is not a general demand in production but is a basic embodiment of the superiority of the socialist system and a demand of fundamental socialist economic laws. If we do not analyze the problem in this manner, we will in reality be ignoring the social significance of individual consumption. Furthermore, encouraging individual consumption cannot be divorced from the principle of "first, feed the people, then build the country." "Under the prerequisites of developing production, improving economic results and the stable growth of the state financial revenue, and correctly handling the relationship between accumulation and consumption, we must gradually increase the wage income of the staff members and workers in our country and gradually increase the people's consumption."

9335  
CSO: 4006/782

FINANCE AND BANKING

TIMBER PRICE REFORM PROBED

Beijing JIAGE LILUN YU SHIJIAN [PRICE THEORY AND PRACTICE] in Chinese No 3, 20 May 85 pp 30-32

[Article by Tan Guangqing [6223 0342 1987]: "Exploring the Timber Price Reform"]

[Text] In recent years, the state has raised the timber price as well as the criteria for collecting funds for nurturing forests, has relaxed the policy on forestry, and has taken a first step in mobilizing the enthusiasm of the broad masses of forestry farmers for afforestation, which is beneficial to China's afforestation effort. However, the timber price generally is still too low. Under the new situation of the overall economic reform and the reform of the price system to revitalize the economy, many new situations and new problems have again appeared in regard to timber prices. We must probe new methods of price control.

I. Major Problems in the Current Timber Price

In light of the timber-producing counties in [Jiangxi's] Yichun Prefecture, the major problems in the current timber price are as follows:

A. There is a wide gap between the list and negotiated timber prices. Currently, there are two major categories of timber prices: One involves timber under central distribution by the state. Command-style planned pricing is strictly implemented. This is the list price stipulated by the state. The other category involves privately-owned timber and non-specified timber according to state stipulated ratios. Exchange for grain and exchange of materials, and compensatory trade are permitted. This is a timber price outside the plan, which is in reality a negotiated price. Because both list price and negotiated price exist for grain and materials for exchange, in concrete implementation, exchange in kind involving timber and the targets for exchange is carried out incompletely, and has evolved into compensation for the difference between list and negotiated prices for the grain and materials for exchange, which also means an evolution from material exchange into exchange using money as the medium. Compensatory trade involving timber is additional price on the basis of the list price. In light of the situation in Tonggu County, the ratio between the timber list price and negotiated price is 1:1.6 to 1:2.8. For instance, in the list price of construction materials for

peasant housing, wooden post is 192 yuan/cubic meter, beam is 163 yuan/cubic meter, truss is 128 yuan/cubic meter to 155 yuan/cubic meter, the average being 170 yuan/cubic meter. With additional difference of 110 yuan, the negotiated price is 280 yuan/cubic meter. Or, for instance, the average list price for specified China fir is 120 yuan/cubic meter. With additional difference of 220 yuan/cubic meter, the negotiated price is 340 yuan/cubic meter. The Ministry of Forestry convened in Wuhan the National Forestry Conference on Production and Sales Exchange of Timber Not Under Centralized Procurement. The Tonggu County Timber Co and the Huangpi County Supply and Marketing Cooperative in Hubei Province signed a contract for ordering goods, in which inferior wood from substandard pine was quoted at 77 yuan/cubic meter and timber from intermediate cuttings (fir pole) was quoted at 120 yuan/cubic meter. Both were list prices. At the same time, a supplementary contract on joint operation of forestry was signed. Huangpi Supply and Marketing Cooperative would provide Tonggu County Timber Co with 66,000 yuan for afforestation and nurturing intermediate cuttings, with an average compensation fee of 132 yuan/cubic meter for afforestation. Huangpi Supply and Marketing Cooperative must also pay 15 yuan/cubic meter of forestry nurturing fee for fir, pine and inferior wood, 6 yuan/cubic meter of management fee for fir and 4 yuan for pine. The total negotiated price was 228 yuan/cubic meter for inferior wood from substandard pine and 273 yuan/cubic meter for fir pole.

The reasons for the wide disparity between timber list and negotiated prices are: First, the planned price for timber is too low. According to an investigation of timber costs in 1983, the per-mu afforestation cost included: 0.8 yuan for saplings, 25 yuan for leveling of land, 5 yuan for planting, 35 yuan for nurturing (seven times), and 61.75 yuan for indirect expenses (including forest paths, fire lanes, forest protection, management fees, and depreciation of fixed assets), the total cost being 127.55 yuan. With interest (calculating 20-year average compound interest for the use of funds, the annual interest rate was 5.76 percent), the per-mu cost was 390.94 yuan, and the timber produced was 6 cubic meters, which was converted to a theoretical afforestation cost of 65.16 yuan/cubic meter. The mountain price was 39 yuan/cubic meter. The fee for the procurement station was 25 yuan/cubic meter (this includes 5 yuan in tree-felling wages, 18 yuan in transportation fees for 10 li, and 2 yuan in management fees). The total cost of fir was 129.16 yuan/cubic meter. However, the present planned procurement price for standard fir products is 64 yuan/cubic meter, with a deficit of 65.16 yuan/cubic meter. In the realm of circulation, the appropriation price is too low. The timber price adjustment on two occasions in 1979 and 1981 both involved the readjustment of forestry prices. The absolute amount of the present difference in the procurement and sales (allocation) prices is still the base figure for 1973. The allocation price for fir only increased by 20 yuan in 1981, while the forestry price increased by 25 to 26 yuan (22 yuan for base price, which included specified grade differences). In the base figure for 1979, the various expenses were even cut by 5 yuan. For instance, the Jinhe Lumber Yard in Yichun Prefecture delivered timber to the state in 1983 at 25.12 yuan/cubic meter for fir and 26.97 yuan/cubic meter for pine. As a result, the more delivery tasks the lumber yard fulfilled to the state, the greater the deficit. Or for instance, Tonggu County, a timber-producing area, delivered timber from the procurement points to the Jinhe Lumber Yard at the cost of 125.8 yuan/cubic meter for fir and an average allocation price of 121

yuan, sustaining a loss of 8.8 yuan/cubic meter. The more timber delivered to the state, the greater the deficit.

Second, the contradiction between timber supply and demand is significant. With the rapid development of industrial and agricultural production and the improvement of the people's livelihood, urban and rural housing construction alone has made demands on the manifold increase of timber. When the peasants become well-off, the first thing that comes to mind is building new houses or transforming old houses in an attempt to improve residential conditions. As we understand, roughly 40 to 60 percent of the peasant households in the rural areas want to build new houses or expand their houses. After housing is taken care of, one then wants to add large quantities of painted furniture. Thus, timber, especially fir, is in great demand. The negotiated price for timber will inevitably rise.

B. The real benefits to the forestry farmers are small. In the delivery of timber within and outside of the plan for 1983, the forestry farmers of the entire Tonggu County obtained an average of 76.86 yuan per person. Tonggu is a forestry county; wooded and hilly areas constitute 85 percent of its land surface. Income from timber is the major source of livelihood for the forestry farmers. The county is also suffering from a grain shortage. The forestry farmers must therefore use part of the income from timber to purchase grain at negotiated prices. The forestry farmers of this county have rendered great contributions to the state's need for timber, but the real benefit they obtain is too small. Too many intermediate links have taken from the income from the timber business. The various sectors have reached out their hands for money from timber.

C. Quality and price are divorced from one another. Due to the wide gap between timber list and negotiated prices, prices for substandard timber are higher than for standard timber, non-specified timber prices are higher than specified timber prices, and even firewood is higher than specified timber--selling firewood is more profitable than selling timber.

The existence of these problems in timber pricing has produced the following serious consequences: indiscriminate felling of trees, and dampening the enthusiasm of the forestry farmers in creating and nurturing forests. The masses in the forestry regions report that "wherever the highway leads, the hills become barren." Although this is not entirely accurate, it is representative. The emphasis on tree-felling and deemphasis on afforestation is still an issue worthy of our serious attention, because this not only will reduce timber output but will also undermine the ecological balance of the forestry regions, thereby leaving no end of trouble for our future generations. Of course, there are many other reasons, but the irrational timber price is certainly an important factor. Another harmful consequence is that the inconsistency between the quality and price of timber will result in waste through transforming specified timber into non-specified timber.

## II. Tentative Ideas for Timber Price Reform

In reforming timber prices, the guiding ideology should conform to the demand of the law of value and to the spirit of "controlling the macroeconomic realm and revitalizing the microeconomic realm." We should utilize price to promote afforestation, restrict timber consumption, balance timber list and negotiated prices, and encourage timber substitutes. For this reason, we must give thorough consideration to the following factors in stipulating prices for timber-producing areas:

1. The cost for the entire timber production cycle from saplings to full-grown forests to tree felling, transportation and procurement.
2. The relationship between supply and demand. The situation of demand over supply for timber will continue to exist for a long period of time. To balance this relationship, timber prices should be much higher than the value.
3. The rational readjustment of the price parities between timber and timber substitutes in order to encourage the use of timber substitutes.
4. The narrowing of the gap between the timber list and negotiated prices, thus making the list price for timber under centralized distribution approach the level of timber negotiated price.
5. The increase in the timber price on the domestic market and the encouragement of the import of timber from the international market in order to protect timber resources at home.

Synthesizing with the above, in the stipulation and management of timber price, we must adopt the following measures:

1. Increase by a wider margin the timber procurement price. The margin of the price increase must embody the cost of the cycle of growth and production of timber as well as a reasonable profit.
2. After a substantial increase in timber prices, with regard to that portion of the price exceeding value: we can adopt an increase of the tax rate of factory timber prices in order to enable the after-tax factory timber local sales price to approach the level of negotiated prices. For instance, in Tonggu County, the negotiated local sales price for specified fir is 340 yuan/cubic meter. The list local sales price for fir of the same tree and specification can be raised to 300 yuan/cubic meter.
3. After achieving a balance of timber list and negotiated prices, we can open up the free market for timber under four conditions in order to revitalize the economy of the forestry regions: no excessive felling of trees, fulfillment of quarterly delivery to the state of timber under centralized distribution, fulfillment of taxation tasks (of this, taxes for privately-owned timber, non-specified timber and timber from intermediate cuttings will be imposed according to the factory timber price of the Ministry of Forestry, or the tax rate will be appropriately lowered), and fulfillment of afforestation and nurturing tasks. Proof must be obtained from concerned departments before



timber is allowed to be brought into the free market, consistent with these four conditions.

4. Having adopted the above measures, if "timber selling difficulties" occur, the forestry departments or the units entrusted by them will carry out procurement. As long as there is proof of such phenomena, whatever is sold must be procured, procurement must not be refused, and grade and price reduction are not permitted.

5. The financial revenue accumulated as a result of the substantial increase of the tax rate on the factory timber price should be used specifically for afforestation and for supplementing the key timber-using sectors. The focus of financial subsidy should be on: First, nurturing and building forests. Here we return the profit to the forestry farmers and enable the forestry farmers to become well-off through building and nurturing forests. Subsidies will be given to whoever builds and nurtures forests. No intermediate links are allowed to hold up the subsidies. Second, subsidy for mining timber. Third, investment in building up the forestry regions, including constructing highways and bridges through the forestry regions. Special-topic study must be carried out on how to divide the profits at various levels and how to classify the scope of financial subsidy at various levels involving the income from the increased tax rate for the factory timber price.

6. Simplify the previous exorbitant fees, such as types A and B forestry-nurturing funds and funds returned to forestry. Although these fees are collected every year, a great portion is not used for afforestation but held up and used by the various levels. Many places "build forests every year but see no forests." It is better to change to: Taxation--finances--subsidy--afforestation.

After the above reform in timber price, I maintain that there will be the following advantages:

1. The reform can promote the development of production in the forestry regions and enable forestry farmers to become well-off. Through timber price increases and subsidies for afforestation and nurturing, the income of the forestry farmers will increase by a wide margin, which will enable their per-capita income to gradually reach the level of the grain-producing regions and cash crop regions. This will heighten the enthusiasm of the forestry farmers for material gain. After the income of the forestry farmers has increased, there will also be richer economic resources for building and nurturing forests, transforming deficient and inferior forests, opening up barren hills, developing forestry, and accelerating the greening of the motherland.

2. It can effectively prohibit indiscriminate felling of trees. We must carry out comprehensive harnessing before we can check the unhealthy tendency of indiscriminate felling of trees. From the standpoint of timber price control, one reason is that, the planned timber price being too low, the forestry farmers have indiscriminately felled trees in an attempt to sell more timber at negotiated prices to increase their income. Having implemented the above timber price reform, satisfactory income has been guaranteed to the forestry farmers and a basic balance has been attained in timber list and negotiated



prices. The forestry farmers will cherish the trees even more, which will put an end to indiscriminate felling. As for the few individuals who sell timber privately to evade taxes, we can carry out strict investigation and impose penalty according to the tax laws and regulations.

3. It is conducive to setting timber prices according to quality. After a basic balance has been established between the two timber prices, we have the factors for implementing in an all round manner the principle of fixing price according to quality, and putting an end to such malpractices in wasting timber resources as making long timber short and changing specified timber into non-specified timber, thereby improving the rate of timber utilization.

4. It can encourage substitutes. Having substantially increased timber prices, we can promote substitution of reinforced bars and cement, plastic, bamboo, and brick and stone for timber. The forestry regions can burn cogongrass instead of wood. This will reduce timber consumption and mitigate the contradiction between timber supply and demand.

In addition, it is conducive to importing timber from abroad in order to protect China's forest resources and supplement the domestic insufficiency of timber.

Practice is the only criterion for examining the truth. Whether or not the above ideas on timber price reform can attain the expected goal can be tested, revised, supplemented and perfected in pilot projects.

9335

CSO: 4006/785

## INDUSTRY

### CHANGING FOCUS OF NUCLEAR INDUSTRY

HK080702 Beijing JINGJI GUANLI in Chinese No 7, 5 Jul 85 pp 28-31

[Article by Li Yingxiang [2621 7751 5046] and Guan Zhihong [7070 5268 7703]: "To Focus on One Trade While Practicing a Variety of Operations Is an Important Guiding Principle for Switching the Nuclear Industry From Military to Civilian Purposes"]

[Text] Our nuclear industry is now in a new era of development, that is, changing from originally "focusing on military purposes" to safeguarding the military but switching to civilian purposes, and "focusing on civilian purposes." This is a historical change in strategy. How is the nuclear industry to switch to civilian purposes and what are the guidelines for switching to civilian purposes? Solving this problem well is of exceedingly important significance in further developing our nuclear energy and nuclear technological enterprises.

#### I. To Focus on One Trade Is the Basic Principle of Switching the Nuclear Industry to Civilian Purposes

To focus on one trade, that is, to focus on the nuclear industry, means that in making the switch to civilian projects, it is necessary to give priority to the scientific research, experiments, and production and construction projects related to the nuclear industry, to give priority arrangements to projects on developing and using nuclear energy and nuclear technology, and to fully displaying the important functions of nuclear energy and nuclear technology in the development of the national economy and technical transformation. This is a basic principle to be followed in switching the nuclear industry from military to civilian purposes. In our opinion, the reasons for this are as follow:

First, this is required by the division of work in society. The development of science and technology in the world has now entered the atomic era. Nuclear technology has come into extensive use in various sectors including national defense, industry, agriculture, medicine, and environmental protection. The nuclear industry is bearing the important burden of developing and applying nuclear technology. History has bestowed on the nuclear industry the glorious burden of developing nuclear technology for national defense as well as that of developing nuclear technology for civilian

purposes. Following our country's grasp of the technology of studying and making nuclear weapons and the establishment of the nuclear industrial structure, the nuclear industry is duty-bound to take up the complex task of vigorously developing nuclear technology for civilian purposes. Unquestionably, switching the nuclear industry to civilian purposes should first of all consider the demands of nuclear energy and nuclear technology from the four modernizations and social development. Nuclear industry should fully display its special talents and superiorities, fulfilling to a maximum degree the needs of society.

Second, it falls in line with the requirements of the development of the nuclear industry itself. As in the case of the world's large nuclear powers, our nuclear industry started with the study and production of nuclear weapons. Watched closely by the whole party, supported by the whole nation, and following the joint efforts and tedious struggles of the extensive masses of scientific and technical personnel, cadres, and workers, we speedily broke the nuclear monopoly of hegemonism, grasped the techniques of manufacturing nuclear weapons, and tentatively formed a nuclear counterattack force which can repel the nuclear threat of hegemonism. This represented an important contribution to the modernization of national defense made by the vast masses of staff members and workers of our nuclear industry. Nevertheless, this success does not imply the end of the development of the nuclear industry. Rather, it should be taken as a new starting point. Our establishment and development of the nuclear industry is decisively not for the simple purpose of studying and making nuclear weapons, but, basically speaking, it is for the purpose of grasping nuclear technology, developing the national economy, and providing for mankind's welfare. In the course of studying and making nuclear weapons, the establishment of the structure and capability of the nuclear industry could be brought into full play and application only through developing nuclear technology and nuclear products for civilian uses. In order to effectively develop the nuclear industry, it is necessary to make unified plans for the production of military articles and civilian articles, and to set up a liberalizing and a military-civilian integrated type of nuclear technological and industrial structure, centering on the use of nuclear energy, on the all-round development of nuclear technology, and on the guidance of military nuclear technology to promote the development of nuclear technology for civilian purposes; conversely, nuclear technology for civilian purposes also promotes the development of nuclear technology for military purposes. This is the only road to the development of the nuclear industry.

Third, it also fills the need for the maintenance of nuclear strength. In the past several decades, no large-scale warfare has erupted in the world but this does not signify that peace will reign in the world forever or that from now on no large-scale warfare will take place. On the contrary, the two superpowers have all along been engaged in the race for nuclear war preparations, threatening each other with nuclear war. At present, disputes are going on about the so-called "star wars," and the specter of war is forever lurking. For the sake of protecting the safety of the fatherland and world peace, in times of peace we must have a thought for times of war and prepare well for a war against aggression. We must be not only spiritually prepared

but also materially prepared and prepare well for nuclear warfare. In peacetime, reduction in production by armaments departments is entirely correct. This was true in ancient times, is true now, and is true in our country and abroad. In ordinary times, it is necessary to restrict arms production and vigorously switch production to civilian purposes but is also necessary to maintain nuclear strength and prepare for nuclear warfare. This is indeed a sharp contradiction. Under the conditions of a large-scale restriction of arms production, for the sake of effectively protecting and maintaining the nuclear strength, it is necessary to focus on the nuclear industry but switch to the production of civilian articles.

Fourth, it is needed for the development of the national economy. For the purpose of realizing, by the end of this century, the strategic target of quadrupling the gross value of industrial and agricultural production, our country will vigorously develop the energy industry and has mapped out plans and regulations for developing nuclear power generation. In order to meet the needs of developing the national economy, the nuclear industry must serve the state's energy construction, earnestly introduce technology from abroad, speed up the construction of nuclear power stations, make fuel for nuclear power generation available from this country, set up an integrated circulation system of fuel for nuclear power generation, provide the technology, appliances, and instruments for the control, protection, and environmental surveys and testing of nuclear power stations, and so forth. Furthermore, for the sake of meeting the needs of the technical transformation of the national economy, it is necessary to actively develop the peaceful uses of nuclear technology and make nuclear technology applicable to the national economy and the various phases of life in society.

## II. Diversified Operations Are an Important Direction for Switching the Nuclear Industry From Military to Civilian Purposes

To focus on the nuclear industry by switching the nuclear industry from military to civilian purposes does not mean to confine oneself solely to one industry or trade, that is, on nuclear industry alone to the exclusion of all others. On the contrary, while firmly insisting on the principle of focusing on nuclear industry, it is also necessary to firmly insist on the direction of diversified operations. The reasons for this are: 1) The nuclear industry is a production department with a strong nature of comprehensiveness and continuity. Starting from geological surveys and prospecting, the work is followed up by work on mines, waterways, metallurgy, the processing, storage, and residual disposal of nuclear fuels, and so on, with one stage of work closely followed by another stage. Since enforcement of the large-scale restriction of end products, the various trades, industries, and stages have uniformly reduced production equally, and they are all facing the problem of how to enable the surplus capacity to display its role. 2) There being a large number of trades and industries, each with a specialized character, the existing production lines of military articles cannot be directly converted into production lines for producing both military and civilian products or combining of military products with civilian products. In switching to civilian purposes the use rate of the existing plant premises and equipment is very low. Very few of them can be rebuilt

or expanded, and in the majority of cases new construction is needed and a new start must be made. 3) The products of the industry are principally for military purposes and are hardly good for general military and civilian uses. 4) The great majority of the industry's units are located in the mountains, grasslands, and deserts. Transportation facilities are poor and communication with the outside is difficult. On-the-spot switching to civilian purposes is difficult. Hence, in switching the nuclear industry to civilian purposes, it is necessary to break the demarcation and limits of industries and trades, to focus on the nuclear industry, carry out diversified operations, and allow nuclear and nonnuclear projects to emerge at the same time. Only by so doing is it possible to further enliven the nuclear industry. Socialist economy is a planned commodity economy. If a commodity is confronted with severe competition and market supply and demand are sometimes brisk and sometimes slow, only through developing diversified operations can the enterprise possess the ability to meet emergencies and maintain the stable character of its production. At the same time, only through enforcing diversified operations can we manifest the ideology that the army is maintained by the people. This is because developing nuclear technology for military purposes requires fairly large funds and the state's appropriations for military expenditures are rather limited. But, developing diversified operations can open up new financial sources and this can subsidize part of the expenditures for studying and making new nuclear weapons and equipment and maintain the capacity for producing nuclear weapons.

### III. The Dialectic Relations Between Focusing on One Trade and Diversified Operations

To focus on one trade while practicing diversified operations is an important guideline for switching the nuclear industry from military to civilian purposes. At present, people are still not yet unanimous in thought or understanding concerning this problem, principally due to three erroneous tendencies: 1) One-sided emphasis is placed on the importance of focusing on one trade and a sufficient understanding of the inevitability and importance of practicing diversified operations is lacking, that is, cherishing the outmoded, preserving the outworn, concentrating on one thing only, and undertaking production of civilian articles related to nuclear technology and devoting little effort to grasping diversified operations; 2) caring only for developing diversified operations, neglecting to focus on one trade, lack of a sufficient understanding of the necessity of focusing on the nuclear industry, and the inability to correctly tackle the problems of products which yield little profits, require complex skills in production but cannot be marketed briskly; and 3) in arranging the work to switch from military to civilian purposes, the continued inability to switch to focusing on civilian purposes and the erroneous belief that since military weapons occupy the first place in importance, production of military weapons should take the first place in the work schedule.

In recent years, the leadership and staff members and workers of the various enterprise units of the nuclear industry have gradually heightened their consciousness on implementing the guideline of safeguarding the military but switching to civilian purposes and the output value of civilian articles has

been continuously rising. Thus, the output value in 1983 was double that in 1980, while in 1984, it increased 22 percent over 1983; the products have increased in variety; the ratio of units and personnel taking part in the switch of production has also risen yearly; and the economic results of the switch to civilian purposes have noticeably increased. Unfortunately, compared with the demands of the central authorities, or with the situation of the reform, or with other departments of the defense industry, a great disparity still exists. In order to further improve the work of switching from military to civilian purposes, we must thoroughly understand and recognize that the important guideline is "to focus on one trade while practicing diversified operations," and achieve an all-round and correct understanding of the dialectic relations between "focusing on one trade and practicing diversified operations." In selecting the projects in switching to production of articles for civilian use, we must insist on focusing on one trade and, taking full note of the superior position of nuclear technology, give as much consideration as possible to the selection of those civilian articles the production of which is related to nuclear technology and calls for more or less the same skills. By so doing, the intimate knowledge of the required skills and technology will ensure good quality and cheap prices, the products will be highly competitive in the market, and relatively better economic results can be obtained. Insisting on "focusing on one trade" and insisting on "practicing diversified operations" complement and supplement each other. Through correctly implementing the guideline of "focusing on one trade and practicing diversified operations," it is possible to continuously improve the economic benefits, continuously raise the technical level, gradually renovate the tools, implements and equipment, and gradually elevate the operations and management level.... In a word, we must rely on the industry's own strength to achieve its continuous development and growth.

#### IV. Establishing Several Basic Concepts

For historical reasons, the majority of enterprises in the nuclear industry have long engaged in the production of arms. Their production tasks depend on plans assigned by the state, their products are purchased by the state, and the prices of their products are based on the planned cost of production plus an additional 5 percent. The enterprises lack the ability to operate independently. At present, the guideline of safeguarding the military and switching to civilian purposes has encountered a new problem, that is, under the conditions of a planned commodity economy, how to cater to the market, how to cater to the users, and how to survive and develop in the midst of competition. Hence, it is necessary to establish the following basic concepts:

##### 1. Concept of Benefits

In the past, for the sake of ensuring that the nuclear weapons could speedily pass the test in technology, political considerations frequently were treated as more important than economic considerations and the concept of economic benefits was lacking. At present, for the purpose of realizing the strategic tasks of construction of the national economy, the demand on the enterprises is that they switch all work to the track of taking the improvement of

economic results as the center. Prior to undertaking any new project, the enterprises must make a study of its feasibility first. They must consider from the micro-angle the economic benefits to the enterprises and, from the macro-angle, the economic benefits to society. They must attain the objectives that the technology is advanced, feasible, and economically rational, that the natural resources required are dependable, that supply, production, and marketing are balanced, and that availability of all necessary parts for coordination and assembly is ensured. They must also raise the level of their operations and management, work with the market in mind, and take up production and exchange of commodities as regular tactics. They must achieve harmony of their internal conditions with the external environment, ensure output being larger than input, and also ensure more accumulations to the state and greater benefits to the enterprises.

## 2. Concept of Meeting Contingencies

In the long march of time, wartimes are short but peacetime is long. In the requirements for weapons and equipment, an enormous difference exists between peacetime and wartime. How to handle well the problem of doing research on and producing weapons in peacetime so that, on the one hand, the development of the national economy benefits and, on the other hand, national defense is not weakened and preparations are always ready for wartime needs, is an exceptionally important topic.

Viewed from the tactical angle, it is not likely that the superpowers will change their innate nature of promoting world war, undertaking external aggressions, and engaging in hegemonism. Therefore, it is necessary in peacetime to think of wartime and make good preparations such as storing up, and accumulating, nuclear technology and readying production capacity in case of a war against aggression. Viewed from the standpoint of war tactics, in the peacetime implementation of the guideline of safeguarding the military and switching to civilian purposes, it is necessary to set up a flexible production line which is capable of meeting the needs of peacetime switching to civilian purposes and is also capable of switching back to military purposes in time of war. Viewed from the standpoint of technological development, it is true that in ordinary times defense industry production is restricted and appropriations for military expenditures are limited. However, under such conditions, not only should the progress and development of military science and technology not be weakened, but research on making nuclear weapons should be speeded up, the quality of weapons should be steadily improved, and their variety should be increased. And, speaking from the economic angle, since in ordinary times defense industry production is restricted, there must be surplus production power left and a large number of surplus personnel and much equipment lying idle. We must make full use of this manpower and material power to produce civilian articles, making the people support and maintain the military and thus reducing the state's burden.

## 3. The Market Concept

For a long time, enterprises in the nuclear industry have taken up the burden of scientific research work and production work related to the

defense industry. They are organs of the purely production-type, seldom indulging in the study of market demands. In other words, their market concept is weak and they have behaved like bureaucrat-merchants. At present, since enterprises in the nuclear industry are actively promoting the development of articles for civilian use, they can hardly continue to exist, or grow, if they separate themselves from the market. They must speedily change from the closed type to the open type, and from the purely production type to the operations-and-development type. They must be able to grasp changes in market needs and take market forecasting as the precondition to correct decisionmaking in operations. In particular, during the current era of swift development of science and technology and of the constant emergence of new products, they must all the more set up a market concept. First of all, it is necessary to instill in their minds the ideas of serving clients with all their hearts and souls, turning out products that are marketable, attractive, and cheap in price, and rendering high-quality services to clients. It is necessary to accede to the judgment and inspection of the vast masses of consumers and establish the concept of placing the customer before others and making credit and reputation come first. In addition, we must pay earnest attention to bringing into full play the enterprises' special features in operations and their superior position in technology, so that they can ably perform the role of guiding and leading the consumers, guiding consumption, developing the market, and literally taking over the market.

#### 4. Concept of Competition

So long as there is commodity production, competition will exist. If the nuclear industry wishes to survive and to develop, it must be brave enough to compete and be good in competition. Hence, it must establish the concept of competition, continuously reform operating tactics and operating methods, continuously adopt new technologies, continuously open up new production fields, and open up new markets. When selecting the direction of production of products, it is necessary, on the precondition of fully meeting the technical targets, to adopt, as much as possible, advanced technology of the mature type, rationally use raw materials and accessory parts, rigidly carry out all-round quality control, and strive hard to lower the cost of production, thereby providing the products with strong competitive power within the same industry or trade, capable of maintaining from beginning to end the leading position in a competitive environment.

Seen from the actual condition of the progress of switching the nuclear industry to civilian purposes, this work has many and huge difficulties and the task is an enormous one. In order to enforce the guideline of focusing on one trade and practicing diversified operations, we must do a good job of the following: 1) Raising understanding, increasing the spontaneous nature of the work, and overcoming any ideas of waiting, reliance, and asking; 2) strengthening the leadership, setting up a healthy system of developing articles for civilian use, and devoting major efforts to the work of switching to civilian purposes; 3) enforcing the system of management at various levels, and making the leadership at various levels incorporate this work in their daily agenda; 4) unifying the regulations



and achieving the objectives of controlling but without a stranglehold and enlivening but without causing confusion; 5) focus on the civilian purposes, treating the enforcement of the guideline on safeguarding the military but switching to civilian purposes as hailing the rebirth of the nuclear industry, and, in arranging the volume of work, devoting even more efforts to grasping the work of switching from military to civilian purposes; and 6) formulating policies of encouragement and arousing the activism of the various levels and various units in enforcing the guideline of focusing on one trade and practicing diversified operations.

CSO: 4013/185

INDUSTRY

#### SHAANXI MEETING STRESSES INDUSTRIAL ECONOMIC RESULTS

HK260457 Xian Shaanxi Provincial Service in Mandarin 1130 GMT 25 Aug 85

[Excerpts] A provincial forum to analyze industrial economic results, which concluded yesterday, pointed out that industry and communications production in the last few months of the year must be organized to center on improving economic results.

The meeting held: The province's industrial growth rate in the first 7 months of the year exceeded 20 percent. This was a high rate. Regarding the growth rate question, the different areas and departments should not compare each other's performances. They should attain the rate of which they are capable, but in cases where the rate cannot rise due to restrictions imposed by objective conditions, people should not force extra performance from equipment so as to forcibly raise output value. Growth rate must be subordinate to economic results. We should certainly not pursue a sham growth rate or a growth rate without economic results.

The meeting held: Production costs have risen everywhere in recent years due to increased prices of raw materials and fuel, and there has objectively been a certain degree of difficulty in improving economic results. However, this certainly does not mean that they cannot be improved. The enterprises should focus their vision inwards, continually improve their quality, and do everything possible to tap internal potentials. This is the fundamental and long-term way to improve economic results. It is impossible to improve economic results by indiscriminately hiking prices and shifting the burden onto the customer. It is still less permissible to try to improve economic results by resorting to malpractices by cheating the state, retaining profit, and evading tax payments.

The meeting stressed: There can be no economic results without quality. The enterprises must continue to straighten out their guiding ideas on management and get rid of the erroneous trend of attaching much importance to output and output value and little to quality. They must also strive to cut input consumption and improve management.

CSO: 4006/919

INDUSTRY

PLASTIC GOODS PRODUCTION DOUBLES IN 5 YEARS

OW060644 Beijing XINHUA in English 0631 GMT 6 Sep 85

[Text] Beijing, September 6 (XINHUA)--The output value of plastic products doubled in the past five years, from 5.4 billion yuan in 1980 to 10.8 billion yuan in 1984, according to the Ministry of Light Industry.

In the same period, output rose from 1.14 million tons to 2.15 million tons.

In the first six months of this year, the country turned out 1.05 million tons of plastic products of all kinds, an increase of more than 19 percent over the same period of last year.

The ministry said the increased output of foodstuffs, beverages, home electrical appliances, garments and footwear, and the construction and interior decoration industries recently have done much to promote the development of the plastics industry.

China's plastics industry began to take off in 1958 when the Jinxi Chemical Works in Liaoning Province started to produce polyvinyl acetate resins in substantial quantities. In the early 1960s, plastics were widely used to make such daily-use articles as raincoats and shoes. Since the mid-1960s, plastic sheets and pipes have been widely used in agriculture. Since the beginning of the 1980s, plastics have been used to develop packing materials, building materials and products used in various other industries. Of these, plastic products to be used in packing account for over 20 percent of the total.

However, the development of production is still lagging behind the growth in demand, the ministry said. In the first six months of this year, the country produced 83,000 tons of artificial leather, up 51 percent on the figure for the corresponding period of last year. But it still fell short of demand. The country produced 1.05 million square meters of synthetic leather in the same period, but this had already been booked at the beginning of this year.

In order to develop production, thousands of items of equipment have been imported for plants throughout the whole country, upgrading part of the technological equipment of the industry and adding a production capacity of over 600,000 tons. These imports have played an important role in increasing production, in raising the technical level and in developing new products.

In order to ensure the supply of raw materials, the state has imported four large petrochemical plants from Japan and the United States since 1978. One of these plants has been installed in Daqing, northeast China, and is scheduled to go into operation next June. It is expected that it will have an annual production capacity of 140,000 tons of high-density PVC and 60,000 tons of low-density PVC.

CSO: 4020/361

DOMESTIC TRADE

YUNNAN, HEILONGJIANG TO ESTABLISH ECONOMIC, TECHNOLOGICAL RELATIONS

HK270945 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 21 Aug 85

[Text] After extensive discussions and talks, a responsible person of the Yunnan Provincial Economic and Technological Cooperation Office and a responsible comrade of the Heilongjiang Provincial Economic and Technological Cooperation Committee recently agreed to establish long-term, stable economic and technological cooperation relations between the two provinces on the principle of mutual benefit and reciprocity, learning from others' strong points to offset one's own weaknesses, and developing jointly.

It was learned that the two provinces have reached an initial agreement in the following fields:

In order to give full play to Yunnan's superiorities in tobacco and flue-cured tobacco, Heilongjiang Province has decided to assist Yunnan Province in the production of cigarettes. On the basis of producing cigarettes jointly, the two provinces will do their best to expand joint production of new varieties. Heilongjiang Province will also cooperate with Yunnan in providing supplementary materials needed in production of cigarettes.

Yunnan abounds in rubber resources and welcomes the exploitation and use of the resources. Some relevant departments in Heilongjiang Province would like to help Yunnan build factories and carry out all-round cooperation with Yunnan in production of tires and other rubber products in various ways, and have reached an agreement with the province on Yunnan Province dispatching an inspection group to Heilongjiang to select and decide on the way of production and the units for carrying out cooperation, and to study concrete plans in depth. The two provinces have also decided to support each other in rubber and supplementary materials needed every year.

Yunnan Province has abundant phosphate deposits. Heilongjiang Province hopes that Yunnan will give preferential treatment in providing it with phosphate. Yunnan Province is now developing production of yellow phosphorus and phosphorous ammonium through such ways as raising funds, buying shares to build factories, providing products, and sharing profits. It will submit relevant plans for Heilongjiang Province to study.

The two sides have agreed that Yunnan's Honghe Hani-yi Autonomous Prefecture and Heilongjiang's Mudanjiang City will become friendly prefecture and city and establish a long-term, cooperative relationship with each other. Yunnan Province would like to exchange flue-cured tobacco and some nonferrous metals for steel and Heilongjiang Province will give vigorous support in this respect.

CSO: 4006/943

DOMESTIC TRADE

FORUM DISCUSSES EXPLOITATION OF CHANG JIANG BASIN ECONOMY

HK100326 Wuhan CHANGJIANG RIBAO in Chinese 26 Aug 85 p 1

[Dispatch by reporter Zong Shen [1350 3932]: "Forum on Joint Exploitation of the Chang Jiang Basin Economy by Chongqing, Wuhan, and Nanjing Is Held in Nanjing"]

[Text] Nanjing, 25 Aug--The 4-day forum on joint exploitation of the Chang Jiang Basin economy by Chongqing, Wuhan, and Nanjing ended in Nanjing today. Those who attended the forum showed great enthusiasm and concern for the joint exploitation of the Chang Jiang Basin economy. The leaders of the three cities unanimously agreed that as Chongqing, Wuhan, and Nanjing are the experimental cities selected by the State Council to carry out the comprehensive reform, the three cities should jointly push forward with developing the commodity economy in the vast rural areas of the Chang Jiang Basin while carrying out comprehensive exploitation of the Chang Jiang.

The forum had a lively atmosphere. Liao Baikang, secretary of the Chongqing Municipal CPC Committee, Ma Li, director of the Chongqing Municipal CPC Advisory Commission, Wang Qun, first secretary of the Wuhan Municipal CPC Committee, Chen Weigao, secretary of the Nanjing Municipal CPC Committee, Nanjing Major Zhang Xuehua, and others attended the forum. Zhou Taihe, advisor to the State Restructuring of the Economic System Commission, spoke at the forum.

All the comrades agreed that it is necessary to understand more deeply the important position of the Chang Jiang, which is the longest river in our motherland, and the special position and role of the exploitation of the Chang Jiang Basin economy in China's development. The Chang Jiang is one of the most valuable waterways in China and in the world. It can provide many resources. The social and economic conditions of the Chang Jiang Basin are the best compared with those of other large river basins in our country. What is called "The land of plenty," "the two lakes," and "the golden triangle" are all in the Chang Jiang Basin. The time is ripe to carry out the reform and construction of our country as well as exploitation of the Chang Jiang Basin economy. The acceleration of the exploitation of the Chang Jiang Basin economy has great practical significance and long-term historical significance for linking the economies of the east and west in our

country and in pushing forward north-south exchanges, exchanges and transport between urban and rural areas, coordinated development of urban and rural areas, and the realization of the strategic plans for the 21st century.

It was pointed out at the forum that comprehensive exploitation of the Chang Jiang is a major task and an important strategic move. Under the macroscopic guidance of the state, various areas along the Chang Jiang, especially the central cities along the Chang Jiang, should bring into full play their own enthusiasm and implement the policies of the state and the localities for jointly carrying out the exploitation of the Chang Jiang Basin economy.

The exploitation of the Chang Jiang Basin economy must depend on the central cities along the Chang Jiang. There are more than 20 cities along the Chang Jiang and each has its own characteristics. The central cities, such as Shanghai, Nanjing, Wuhan, Chongqing, and so on, have very great economic strength, high scientific and technological standards, good communications and transportation systems, and vast markets. These are the chief strong points in the exploitation of the Chang Jiang. If we depend on the central cities along the Chang Jiang, if we strengthen the horizontal relations among Chongqing, Wuhan, and Nanjing and other central cities, if we develop the relations among the central cities, the medium-sized cities and the small cities, like "a silver thread winding through a number of pearls," so as to radiate the vast hinterland, if we gradually expand to the main tributaries of the Chang Jiang, if we form many economic zones and city groups, and if we push forward with the development of the whole Chang Jiang Basin economy, then we will be able to carry out at a fast pace the exploitation along Chang Jiang with a lesser amount of investment and achieve good results.

It was decided that the cities along the Chang Jiang should carry out their work in a realistic spirit and in the spirit of seeking actual results, gradually establish the integrated economic system which has various administrative levels, various channels, and various forms, and form various types of economic combines. At present, the cities along the Chang Jiang should strengthen their relations and cooperation in the six following aspects: develop through transport and joint management, expand circulation channels, invigorate fund circulation, develop the tourist industry, strengthen industrial cooperation, and develop postal and telecommunications services. The three cities should especially jointly develop Nanjing's Xinchengwei Port which will be used for foreign trade.

The cities along the Chang Jiang can carry out bilateral, multilateral, and overall cooperations among themselves. By referring to the mode of the "four provinces and five directions" in the southwest, which advocates consultation on the basis of equality and mutual benefit, the cities along the Chang Jiang can form a Chang Jiang Basin community on a voluntary basis. The central cities along the Chang Jiang should also consider establishing a contact system among themselves, establishing a standing coordination body, and holding a joint conference at regular or irregular intervals.



This afternoon, Sun Han, deputy secretary of the Jiangsu Provincial CPC Committee, and Chen Huanyou, vice governor of Jiangsu Province, visited all the delegates who attended the forum. Gu Yonghuai, manager of the Chang Jiang Shipping Corporation, was invited to attend the forum as a nonvoting delegate.

CSO: 4006/921

DOMESTIC TRADE

BRIEFS

HEBEI ECONOMIC COOPERATION MEETING--After 7 days in session, the Hebei provincial invitation meeting on discussing items of economic and technical cooperation concluded on 11 July. Attending the meeting were more than 300 representatives from the 28 provinces, municipalities, and autonomous regions throughout the country and from the departments concerned of the State Council. During the meeting, our province clinched deals for 720 items of economic and technical cooperation worth 405 million yuan. Of these items, 127 contracts worth 140 million yuan were signed and 593 agreements worth more than 260 million yuan were made. According to the initial statistics, the total business volume will reach 57.12 million yuan. [Summary] [Shijiazhuang HEBEI RIBAO in Chinese 13 Jul 85 p 1 SK]

FIRST, THIRD-LINE COOPERATION MEETING--The national talks on economic and technological cooperation between first and third-line regions concluded in Lanzhou on 26 August. During the talks, extensive contacts were held between representatives of provinces, municipalities, and autonomous regions in the first and third-line regions. A total of 1,391 economic and technological cooperation agreements were signed, involving a total sum of 926 million yuan. During the talks, the Gansu provincial delegation held extensive contacts with representatives of various provinces, municipalities, and autonomous regions. The province signed a number of agreements with them. According to initial statistics, a total of 180 agreements were signed in the metallurgical, machine-building, light industry, and electronics fields, of which 18 were joint economic projects and 162 were technological cooperation projects. With the assistance of the central departments concerned, an agreement was reached with Henan Province by which Gansu will invest 15 million yuan in jointly developing aluminum, vanadium, and thorium mines, in order to develop Gansu's [word indistinct] production. The closing ceremony of the meeting was held in the provincial government hall in the afternoon. [Excerpt] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 26 Aug 85 HK]

CSO: 4006/943

SWEDISH INSTITUTE TEACHING MARKET ECONOMY PRINCIPLES

Stockholm SVENSKA DAGBLADET in Swedish 28 Jul 85 p 11

[Article by Gunnar Filseth: "Chinese Managers Learn Market Economy"]

[Text] Beijing--How to make a profit and pull ahead of the competitors? That is the question for 48 directors and economists during a month-long crash course. They have come in order to learn the latest in modern business and administrative methods at the Swedish Institute for Business Management.

But the place is not Stockholm. And it is not the cream of Swedish business and industry which is taking the course. Most of the course participants are actually dressed in Mao suits and carry old-fashioned briefcases in a country where attache cases have yet to be introduced.

Nevertheless, what they want to learn is Western-style business management. The mysteries of market economy: Price competition. Active marketing. Financing models. Negotiation tactics ....

They do it with an eagerness which amazes the Swedish lecturers:

"I have probably never had such ambitious and inquiring students," says course leader Christopher von Schirach-Szmigiel.

"An incredible involvement. Hot debates. It is quieter at home in the institute in Stockholm," Karl-Olof Hammarkvist agrees.

To Beijing

The Swedish crash courses in Beijing and Tianjin are the predecessors of a Norwegian-financed market-economic institute in the capital of China, a gift worth 17 million kronor, presented during Prime Minister Kare Willoch's visit to China last year. The first Norwegian course in market economy with about 20 students will begin already this fall. The start will take place at BI [expansion unknown] in Oslo. The tall building which is to house the "Norwegian" institute in Beijing will not be completed until next year.

SVENSKA DAGBLADET's correspondent followed five hours of instruction at the Swedish-Chinese institute. During some of them the new competitive situation was studied which has developed for Chinese manufacturers of washing machines. The study material is a case study which throws light on the newfangled things which are entering Chinese industry. And not least: the new challenges with which Chinese business leaders are faced.

China's first washing machine was manufactured as late as 15 years ago. After staying at a very modest level in the 1970's, production took off in 1980. The annual increase amounts to several hundred percent--from 250,000 in 1980 to nearly 8 million last year. A completely new competitive situation has occurred. Previously the task was simple: Each factory was to reach the production quota which had been established by a central authority in Peking. Marketing was handled by the bureaucracy. It also handled the profits--if there were any.

Now, all of this has been turned upside down. After a drastic industrial reform program it is now largely up to the companies themselves to determine their production plan. The business leader must deal with new, complicated problems involving fiscal years, investments and costs. Those operating at a loss will not receive state subsidies, as before; they must convert their production or shut down manufacture.

After a new pricing system took effect, there is almost free competition for washing machines. The competition is growing--according to the most recent study China has 120 washing machine manufacturers. The White Magnolia factory in Peking has had a firm hold on the market. But now the competitors are approaching, in particular Ocean from Chengdu and Wild Goose from Shanghai. The course participants are discussing: What is the best strategy for each one of the three?

#### New Concepts

Competition. Market shares. Pricing strategy. Profit margin. The words buzz through the air--words which until recently were unknown concepts for Chinese managers, or words with an almost blasphemous ring. "Competition" was long an ugly word in China; it caused a sensation when the People's Daily 5 years ago called for a "socialist competition" between Chinese companies.

But the course participants have learned. Discussion topics at the course are: What is the lowest price the Wild Goose in Peking can charge in order to steal market shares from the home market of the "White Magnolia"? Should the Peking factory in turn employ counter tactics and reply by seriously establishing itself in the Shanghai market? What will the cost of a retail network be? Can the customers be lured by discounts? How are customers to be made aware of the new brand of washing machine? Should one concentrate on television commercials?

Karl-Olof Hammarkvist presents a new aspect: If a stock exchange existed, in what manner should one invest one's money, as an investor? Where will the profit potential be the greatest in the future, in the well-established White Magnolia or in the up-and-coming factories in the provinces? China has had several stock issues in the last year and there is talk about reopening the old Shanghai stock exchange.

But there is one object in which none of the businessmen wants to invest his money: China's largest watch manufacturer sells his watches for 90 yuan (300 kronor), but now the major competitor has started mass producing watches at a price of 50 yuan--and with a built-in miniradio, even. The market is saturated. The sentence is unanimous; it is hopeless to continue manufacturing the more expensive watches. There is no demand for them. If

the factory wants to survive, it must act quickly with technological conversion and new products.

'The West Teaches Us Profit'

The youngest and one of the brightest in the class is 28-year-old Wang Hua from the People's Machine Factory. How does he like the course? Wang begins a little formally in the Chinese manner:

"I learned a lot about socialist economy at the university. I think it is good also to learn a lot about Western economy. It could teach us to make profits. This is good when we are building China, which is our duty." I also think it is good for my factory, and that is why I am happy to be here."

11949

CSO: 3650/326

~~SINO-SWEDISH PHARMACEUTICAL FIRM ADJUSTS TO NEW FREEDOM~~

Stockholm SVENSKA DAGBLADET in Swedish 28 Jul 85 p 13

[Article by Dag Bjerke: "Pills in China According to Swedish Formulas"]

[Text] Wuxi--On land reclaimed by the Chinese from Taihu, the Great Lake, the Swedish pharmaceutical industry, in cooperation with domestic companies, is now building a factory which in the fall of 1986 will distribute medicines all across the country.

In the mid-1960's the densely populated Chinese farming community in the fertile regions around Wuxi, a city with a million inhabitants 130 kilometers west of Shanghai, built a dam against Taihu and thus obtained much-needed agricultural land.

On some of this land the brick shells of about 10 buildings, in which pills and liquid medicines are to be manufactured according to the Swedish model, are now rising.

Eight million blood-pressure-reducing Beta blocking tablets, 25 million vitamin C tablets, 16 million tablets for asthma, 15 million headache pills and 20 million chloroquine phosphate tablets against malaria are the planned production figures for the first six months of the factory.

Strict Demands

In addition there are, among other things, 75,000 bottles of protein nutrient solution for intravenous drip. All to be manufactured, according to plans, under the same strict hygiene requirements as apply to the sister factory in Sodertalje, a city which, moreover, is developing a twin city relationship with Wuxi.

"At first we intended to build the factory in just one story, but when we saw the site allocated by the Chinese, and also learned of their foundation methods, we demanded two stories," says Owe Svensk, project leader of the SSPC, Sino-Swedish Pharmaceutical Corporation for the last 5 months.

"Then we can put the actual production in the upper story and it will only be the supply and ventilation facilities in the lower story that will be affected by moisture rising from the ground to the brick walls or by an--extremely unlikely--failure of the dam and flooding."

The ground level of the construction area lies about a meter and a half below the surface of Taihu, a lake which is the third largest in China with a surface of about 2,500 square kilometers, that is to say corresponding to about half of Vanern.

"Our cleanliness requirements, above all, have been one of the hardest things for our Chinese construction colleagues to understand; they don't have the same routines and traditions as we do in that respect," says Owe Svensk.

"Glueing plastic floors with welded seams and wall connections seems to be something completely unknown to the Chinese. This is why we have converted one of the rooms in the completed guard building at the entrance into a training room, where we teach them how to lay floors and cover walls."

"Then when it's time for finishing work and installation on the premises, we will bring in Swedish construction experts to lead the work with electricity, water, waste water and ventilation."

#### Expensive Power Failures

Owe Svensk, with a fresh background from 7 years of Swedish hospital-building in Vietnam, had rather seen that the factory had been equipped with an emergency power plant:

"But that's not the way it turned out. We will get power from two independent sources and the Chinese have promised a secure supply of power. But it is a little nervous: 15 minutes without power are said to result in a loss of sales of about 1.5 million for the protein IV fluid alone."

Supporters of the project, estimated to cost about 130 million kronor, are Astra, Kabi-Vitrum, Leo, Ferrosan and Ferring, coordinated by the Swedish Fund for Industrial Corporation, Swedefund.

BITS, the Committee for International Technical Cooperation, is responsible for that part of the project which can be called assistance, namely the cost of training the personnel, a total of 350 persons, who are to work at the factory.

#### Three Swedes

When in operation the intent is that only three Swedish supervisors/experts will be working at the plant: a local manager and two production engineers. Three spacious homes with Swedish standards and Swedish furniture are being built for them next to the factory site.

"It will probably be cheaper to ship the furniture from Sweden than to buy it from IKEA [furniture store] in Hong Kong," Owe Svensk says.

When the agreement between China and Sweden was concluded in 1978 the plan called for the factory only to spit out its pills and nutrient solutions. A Chinese government authority would then distribute them across the country.

However, in recent years the change of course in Chinese society in a more commercial direction has altered these preconditions, and now the idea is that the SSPC itself will sell its products, with the help of six or seven sales offices in various locations throughout the country.

Owe Svensk is very sceptical regarding the possibilities of staying within the time schedule: test production May-July 1986, commercial startup in August 1986.

"We are already 3 months behind schedule."

"For ceremonial reasons the initial groundbreaking was moved up to the Swedish national holiday on June 6 1984. The blueprints for the plant were not quite ready then," Owe Svensk relates.

"This would have been no problem if the construction had taken place in Sweden, where it is routine to start when the foundation is calculated and designed--regardless of whether the builders are then sure of what will be put on the foundation."

#### Want to Know Exactly

"Here in China they have an entirely different tradition. Here everyone participating in the construction wants to know exactly what the finished building will look like before they even start."

"This is why there have been a number of errors due to carelessness and/or lack of motivation, things which must be redone, which costs both time and money, of course," Owe Svensk says.

Xie Xi-Zeng, head of the municipal construction company of Wuxi, says in unusually clear language for an international cooperation:

"We must admit that there are problems, but we believe that they can be solved."

11949

CSO: 3650/326



FOREIGN TRADE AND INVESTMENT

LIAONING: JINZHOU INTERNATIONAL TRADE SYMPOSIUM OPEN

SK060650 Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 5 Sep 85

[Excerpts] On the morning of 5 September, the Jinzhou City Beishan Hotel was decorated with lanterns and colored streamers. The Jinzhou symposium on international economic and technical cooperation ceremoniously opened here amid the sound of firecrackers, music, and drums. Attending the opening ceremony were more than 300 people, including foreign traders from 15 countries and regions, and representatives from Jinzhou, Chaoyang, and Fuxin, to discuss cooperative projects. Also attending the ceremony were Wei Yuming, vice minister of the foreign economic relations and trade, and Wang Jiyuan, adviser to the Liaoning Provincial People's Government.

The Jinzhou symposium on international economic and technical cooperation is another magnificent gathering on international economic and technical cooperation following the Dalian and Shenyang symposium on international economic and technical cooperation. This symposium will play a positive role in further developing Jinzhou, the central city of the western Liaoning, expanding contacts with the outside, and developing economic and technical cooperation between Liaoning and foreign countries. Adhering to the principles of equality and mutual benefit and through various forms, this symposium will discuss with foreign traders cooperative projects in the fields of metallurgical, machinery, chemical, light and textile, building materials, and aquatic products industries.

At the opening ceremony, Hu Zhanshan, chairman of the organization commission for the Jinzhou symposium on international economic and technical cooperation and mayor of Jinzhou City, said: Jinzhou is the economic and cultural center of western Liaoning. Rich in natural resources, Jinzhou is a comprehensive industrial zone with the petrochemical industry as the main part. Therefore, it has a relative solid material and technical basis and a fine environment for investment. We will strive to cooperate with foreign firms cordially and positive.

The Jinzhou symposium on international economic and technical cooperation will close on 15 September.

CSO: 4006/921

FOREIGN TRADE AND INVESTMENT

HEILONGJIANG FOREIGN ECONOMIC COOPERATION MEETING ENDS

SK060431 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 5 Sep 85

[Excerpts] The Heilongjiang provincial trade meeting on economic and technological cooperation with foreign countries and commodity export concluded on 4 September. Significant results were achieved at the meeting. A total of 52 agreements on joint ventures, cooperative management, compensatory trade, and technology import, worth more than \$38 million, were reached. Transactions of commodity export reached some \$34 million, exceeding the plan by 36 percent.

Attending the meeting were more than 800 businessmen from some 20 countries and Hong Kong and Macao. Through trade discussions, Heilongjiang was further introduced and the influence of our province in foreign countries and Hong Kong and Macao expanded. Some old firms and old friends took the initiative in holding discussions on economic and technological cooperation and exports with us. We also enhanced mutual understanding with new friends through extensive contacts, thus laying a good foundation for future friendly relations.

At this first meeting on economic and technological cooperation with foreign countries, our representatives adhered to the principle of actively importing and acting according to our capacity. They actively imported funds and concluded the transactions that can create foreign exchange in line with our province's financial situation and capacity. Among the signed projects on economic and technological cooperation with foreign countries, the transactions involving joint venture, cooperative management, and compensatory trade projects amounted to 47 percent. This meeting embodied the purpose of making friends extensively and strengthening cooperation and laid a solid foundation for our province to further implement the policy of opening to the outside world and enlivening the domestic economy in the future and to create a new situation in foreign economic and technological cooperation and export trade.

CSO: 4006/921

FOREIGN TRADE AND INVESTMENT

ZHEJIANG TO CONDUCT JOINT VENTURE IN WESTERN SAMOA'S FORESTS

HK061219 Beijing ZHONGGUO XINWEN SHE in Chinese 0852 GMT 5 Sep 85

[Text] Hangzhou, 5 Sep (ZONGGUO XINWEN SHE)--China's Zhejiang International Economic and Technological Cooperation Corporation has invested in the Western Samoa Sen-yang [2773 3152] Development Company Limited by obtaining 40 per-cent of its shares. It will conduct cooperation in exploiting forestry re-sources in Western Samoa.

The joint venture contract for running the Sen-yang Development Company Limited was signed in Hangzhou on 4 September. Hu Ying-hsiang, managing director of Hopewell Holdings Limited in Hong Kong and chairman of the board of directors of the Sen-yang Company; his wife Kuo Hiu-ping; Li de-xin [7812 1795 0207], managing director of the HKC Trade Corporation Limited of the United States; and others made a special voyage to Hangzhou to attend the signing ceremony. Hu Ying-hsing and Zhuang Yumin, acting chief manager of China's Zhejiang International Economic and Technological Cooperation Corpora-tion, signed the contract on behalf of the respective parties.

Western Samoa has rich forest resources with a large volume of timber which is easy to exploit. The Western Samoan Government has expressed their will-ingness to support China's Zhejiang International Economic and Technological Cooperation Corporation and the Sen-yang Company in conducting the joint venture to exploit Western Samoa's forestry resources and develop agricul-ture.

CSO: 4006/921

FOREIGN TRADE AND INVESTMENT

HENAN CONVENES FORUM ON TRADE WITH USSR, EAST EUROPE

HK200251 Zhengzhou Henan Provincial Service in Mandarin 1030 GMT 19 Aug 85

[Text] A Henan provincial forum on trade with the Soviet Union and Eastern Europe, sponsored by the provincial commission for foreign economic relations and trade and the Zhongyuan International Economic and Trade Company, opened on 17 August.

Henan's supplementary trade with the Soviet Union and Eastern Europe, which the government decided to start, was launched on 17 June under the unified leadership of the provincial CPC committee and government, with the approval of the central authorities. Prior to that, responsible persons of the Soviet Union and Eastern Europe Department of the Zhongyuan International Economic and Trade Company went to Beijing to pay calls on the diplomatic missions of the Soviet Union and the countries of Eastern Europe, and also invited a Czechoslovak trade delegation and (Kevati), a counsellor of the Yugoslav Embassy in China, to visit Henan. These moves have promoted further understanding between the province and the Soviet Union and Eastern Europe.

The Soviet Union and Eastern Europe Department of this company recently officially submitted lists of goods for 1985 single-item trade to the commercial counsellors of Poland and Czechoslovakia. After this meeting, it will submit to these two countries lists of goods for supplementary trade for 1985 and views on exchanges of goods for 1986. In accordance with this list and these views, the province will import machine parts and various items of machinery and equipment from the other parties and will export to them agricultural and sideline products and meat.

In this way, the province has initially formed a pattern of trading with all quarters.

CSO: 4006/943

FOREIGN TRADE AND INVESTMENT

FOREIGN INVESTORS' QUESTIONS ANSWERED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 7, 27 Jul 85 pp 42-43

[Article by Dong Shizhong [5516 0013 1813], Assistant Professor, Department of Law, Fudan University, Shanghai: "Answers to Questions of Foreign Investors Who Make Investments in China"]

[Text] 1. Who determines the selling prices of goods produced by Chinese state-operated enterprises?

Answer: The selling prices of goods produced by state enterprises are controlled by state and local commodity price control departments. In general, factories first submit price, tax and profit accounting data which are handed over to authorized departments for review. Findings are then submitted to commodity price control departments for appraisal and determination. There is usually a factory price, a distribution price, a wholesale price and a retail price for each product. The net balance between them is the price differential of each wholesale and retail commercial department. The prices of indigenous products and subsidiary agricultural products may fluctuate according to the market.

2. Who determines the selling price of goods produced by Chinese-foreign joint venture enterprises?

Answer: Based on the enforcement provisions of China's joint venture enterprise law, prices of joint venture enterprises sold domestically may be set by referring to international market prices with the approval of commodity price control departments. Also, it is necessary to follow state stipulations to ensure that high quality goods have high prices and that prices are set in keeping with the spirit of fixing prices on the basis of quality. It is also necessary to report to enterprise management offices and commodity price control departments for the record. Prices of exported goods of joint venture enterprises may be set independently and a report made to enterprise management offices.

3. How do Chinese-foreign joint venture enterprises ensure the supply of raw materials and fuel and how are their prices set? Are payments made in foreign exchange or in Renminbi?

Answer: Contracts for the supply of raw materials, fuel, water and electricity for joint venture enterprises may be signed with the concerned supply units after negotiation. Supplies are then provided according to the contract. As the state examines and approves a given joint venture enterprise contract, it may take into consideration the sources of raw materials and fuel and the supply of water and electricity. Prices and cash payment are determined on the basis of different kinds of material goods.

Based on the enforcement provisions of China's joint venture enterprise law, the purchase of domestic materials under planned allocation other than gold, silver, platinum, oil, coal and timber by joint venture enterprises comes under enterprise management office supply planning. Prices are similar to those for state-operated enterprises and payments are made in Renminbi. Supplies are furnished by material supply and commercial departments or enterprises according to contract. Purchases of materials in material supply and commercial departments and materials that circulate freely on the market may be made directly with payments made in Renminbi. Purchases of foreign trade company exports may be made from foreign trade companies using foreign exchange.

The utilization of water, electricity, gas, communications equipment and other basic facilities by joint venture enterprises for business is unrestricted, as it is for state-operated enterprises. This so-called "equal treatment" refers to needed materials which come under state planning. They are calculated at planned prices. Prices for those materials that cannot be determined within plans may be calculated according to floating prices or negotiated prices and payments made in Renminbi.

4. Can products of joint venture enterprises located in special economic zones and in the 14 open coastal cities be sold in other areas of China?

Answer: The products of domestic enterprises in special economic zones can only be sold in special economic zones. The approval of higher level government departments is necessary to sell them in other areas of China. Products from the 14 open coastal cities may be sold throughout China; there are no restrictions. Products of joint venture enterprises established in the special economic zones and the 14 open coastal cities are treated the same as products of Chinese enterprises. Those from the special economic zones must have the approval of concerned government departments for sales to other areas in China and those from enterprises in the 14 open coastal cities may be sold throughout China.

5. What is the role of the state in the process of formulating plans?

Answer: Production planning is an important part of China's national economic planning. Government planning departments, based on increases in the national income, integrate all economic factors and formulate and issue these plans to local level government planning departments and enterprises. Plans may be classified as directive plans and guidance plans. Enterprises must fulfill directive plans handed down by the state in terms of quantity and quality. To a certain extent enterprises can take some initiative regarding

guidance plans. In addition, on the basis of enterprises fulfilling state directive plans and guidance plans, in keeping with market conditions and the ability of an enterprise to produce marketable goods, production tasks handed down through state directive plans will decrease correspondingly while the scope of the products will expand with the readjustment of the market. This will occur after the restructuring of China's economic system and the expansion of enterprise autonomy.

6. Can joint venture enterprises freely remit money abroad to purchase equipment?

Answer: According to the enforcement provisions of the joint venture enterprise law, joint venture enterprises have the right to decide whether to purchase machine equipment, raw materials, fuel, fittings, transportation and office equipment in China or abroad. Of course, we hope that when price, quality and other conditions are equal, joint venture enterprises will do their utmost to make these purchases in China. In terms of enterprises currently in operation, the majority of them remitted money abroad to purchase their equipment.

7. May joint venture enterprises invest abroad?

Answer: Joint venture enterprises may invest abroad: however, they must do so according to approved procedures. As for the foreign exchange needed, according to the "Enforcement Provisions on Controlling Foreign Exchange in Emigrant Capital Enterprises, Foreign Capital Enterprises and Joint Venture Enterprises" approved by the State Council on July 19, 1983, remittances may be made from that enterprise's foreign exchange deposit account according to schedule with the approval of the State Foreign Exchange Control Department.

8. Can the Renminbi obtained from domestic sales of products and manufactured by joint venture enterprises be used to buy mine products needed in enterprise production?

Answer: Yes. No prior approval is necessary as long as both parties sign a supply contract. China's enforcement provisions in the joint venture enterprise law stipulate that joint venture enterprises should try to first buy raw materials in China for manufacturing goods for domestic sale, and except for gold, silver, platinum, oil, coal and timber as well as import-export commodities bought by foreign trade companies from China, all payments should be made using Renminbi.

9864

CSO: 4006/876

## FOREIGN TRADE AND INVESTMENT

### PROSPECTS FOR TRADE WITH EASTERN EUROPE DISCUSSED

Beijing GUOJI SHANGBAO [INTERNATIONAL BUSINESS] in Chinese 8 Jul 85 p 3

[Article by Du Defeng [2629 1795 1496]: "The Eastern European Economic Situation and China's Open Door Policy"]

[Text] Nineteen eighty-three was the turning point in the economy of Eastern Europe. At the present time this area is in a phase of stable growth. Trade and scientific and technological cooperation between China and Eastern Europe are of benefit to the economic construction of both sides.

After the East European economy underwent rapid development during the "golden era" of the 1970's, the economy fell into a recession during the late 70's and early 80's. It was a period of stagnation and slow growth. Beginning in 1983, the economy of each East European country picked up. They have currently entered a phase of stable growth. It is predicted that during the second half of the 1980's the economic situation of each country will improve further and this will become a significant period of advancement at a steady rate (a below average rate).

#### 1. The Turning Point in the East European Economy

Nineteen eighty-three was the turning point in the East European economy. Industrial production in each country increased 4 to 5 percent. There was a general increase in agricultural production and national income increased 3 to 4 percent compared to 1982. However, conditions in each of the East European countries differ and there are differences in the economic growth rate of each country. National income in East Germany increased by 4.2 percent, in Bulgaria by 3.8 percent, in Poland by 2.5 percent, in Czechoslovakia by 2 percent and in Hungary by 1 percent. Industrial production in Poland grew by 8 percent, in East Germany by 6.2 percent, in Bulgaria by 6 percent, in Romania by 5 percent, in Czechoslovakia by 3.2 percent and in Hungary by 2 percent. Agricultural production also showed a general increase and, except for Poland, market supply in each country improved greatly.

#### 2. The East European Economic Situation and the Establishment of the Four Modernizations in China



The steady advancement of the East European economy during the second half of the 1980's benefits China's open door policy and the establishment of the four modernizations. In the past few years great advances have been made in relations between several East European countries and China. In particular, economic trade and scientific and technological cooperation have improved. Economic trade and scientific and technological cooperation between China and East European countries are advantageous to economic construction in both areas and can provide vitality. Consequently, prospects are vast.

From the East European viewpoint, over the past few years China's economy has flourished and China has firmly implemented the policy of opening up to the outside world, all of which has great appeal to East European countries. East European countries generally believe that while the USSR is their chief partner in developing their economies, China is a potential major economic partner.

In the past 2 years a Chinese economic observation group has visited Eastern Europe. They discovered that some East German and Czechoslovakian technology is more advanced than that of the USSR while the technological levels of the other countries are above average. In particular, since the 1970's Romania, Poland, Hungary and Bulgaria have brought in much advanced technology and patents. Some of the technology is moderate or high level, which meets China's need for introducing technology or transforming obsolete factories. (In 1984 China signed as many as 101 technical transformation projects with East European countries.) Moreover, China can directly import some technology from Eastern Europe which meet China's needs, i.e., Poland's coal mining equipment and road construction machinery; forklifts from Bulgaria; East Germany's electronic technology and robot technology; Hungary's communications equipment and medical treatment apparatus; Romania's oil extraction machinery, food machinery, timber processing equipment and technology and textile machinery; and Czechoslovakia's power station equipment, truck technology and products. China on the other hand can export goods such as oil, textiles, some mine products as well as tea, soybeans, cotton, rice, corn, pork, all kinds of canned foods as well as handicrafts. These are China's traditional products and they are exactly what the countries of Eastern Europe need to import from China.

There are also good prospects for joint enterprises and other forms of cooperation by means of compensatory trade and using joint capital to exploit resources. In the past 2 years China's leaders have on numerous occasions said to East European delegations visiting China that China's policy of opening up to the outside world includes opening up to Eastern Europe. They have encouraged and welcomed all East European countries to build plants in China, to engage in joint ventures and wholly-owned enterprises. They have also expressed the desire for a breakthrough in the sphere of economic and technological cooperation. China has left the door wide open for all East European countries. Eastern Europe has been extremely appreciative of China's opening the door. Some countries are considering investing in plant construction in China, others have already lined up numerous cooperative projects and have come to China to investigate. They have made

preparations to set up joint venture enterprises with China and to establish compensatory trade or wholly-owned enterprises.

After many years of economic construction, the East European region is now developing into a major economic area of the world. Each country already has a substantial industrial base, a high level of science and technology, and considerable economic strength. In the future we must improve economic cooperation with Eastern Europe so as to serve the progress of the four modernizations in China.

9864

CSO: 4006/876

FOREIGN TRADE AND INVESTMENT

PROSPECTS FOR EXPORTS OF AGRICULTURAL MACHINERY

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 7, 27 Jul 85 pp 24-25

[Article by Bao Nairen [7637 0035 0088] and Zhou Lianqing [0719 6647 1987]:  
"Expanding Exports of Agricultural Machinery: The Methods of the China  
National Agricultural Machinery Import-Export Joint Corp in Expanding Exports"]

[Text] In the past few years China's agricultural machinery enterprises have introduced technology and undergone transformation. Product quality has continued to improve and variety has continued to increase. At present China's agricultural machinery may be extensively used in all paddy field and dry land work. Furthermore China's agricultural machinery is simple and newly built. It is easy to operate, maintain, and repair and it is reliable and reasonably priced. Not only is it greatly welcomed by the Southeast Asian, African and South American markets, it has already attracted the attention and praise of the European and North American markets. In the past few years, China's agricultural machinery exports have been growing steadily. At present the amount of exchange received from exports has nearly doubled since 1979. Export cost control is at an ideal level. Of China's mechanical and electrical products, agricultural machinery exports have already become one of the major "hot-selling" export commodities.

Since the China National Agricultural Machinery Import-Export Joint Corp (hereafter abbreviated as the Agricultural Machinery Corp) was established 3 years ago with state approval, work on exports has been included as part of the major agenda. They have done much profitable work in an earnest manner.

I. Uphold Unified Foreign Trade, Coordinate Management

"There are certain limits on the demand for agricultural machinery both in export areas and on the international market; however, competition on the international market is fierce. It is necessary to have a department that will unify overall planning regarding the export market, customers and prices so as to use our advantages to win a victory in competition." As soon as the Agricultural Machinery Corp was established, it encountered the chaotic situation of prices of Chinese walking tractors being forced down in the markets of certain countries and the flood of "goods from across the water" (smuggled goods). In confronting this situation, the corporation carried out large-scale investigations, studies and consultations. They

unified overall planning and completely readjusted the situation. After readjustment the number of domestic units doing business in exporting walking tractors decreased from 11 companies in 9 provinces (or regions) to 4 companies in 4 provinces (or regions); the number of machine models for export decreased from 16 types to 9 types (the best were chosen); and the number of sales agencies abroad decreased from 10 to 4. This not only corresponded to the wishes of Chinese agricultural product export enterprises and business units, it also corresponded to the demands of sales agencies abroad and to the demands of large numbers of consumers. Thus, the fine result of stabilizing this market was obtained.

## II. Uphold the Reputation of Being the Best, Successfully Serve Technology

"Mechanical and electrical goods are a commodity for which it is absolutely necessary to have selling services. Technical services before and after sales are also extremely important. We cannot sell our products and then be free of all responsibility for them. Our goods would not be able to enter the international market and those that do make it will not attain a stable position." In the past few years the Agricultural Machinery Corp has sent over 50 capable technical service teams to over 20 countries and regions to launch extensive technical service work. The results that have been obtained are summarized as follows: (1) In order to open up the African market, they adopted the method of "looking at the goods and then making a deal" on the spot. They make demonstrations and explanations for foreign markets. Not only did they sell all the goods they had brought with them, they also concluded numerous contracts for future goods. (2) They penetrated the local countryside to acquaint themselves with the utilization conditions of agricultural machinery, the levels of technology and the suitability of using China's goods in these areas. They listened to customers comments regarding problems in the design and quality of our goods. This enabled production plants to obtain firsthand data and to continue to improve and upgrade the quality of goods. (3) A South American country ordered 200 diesel engines from us. Once they arrived, we received numerous reports of problems regarding the quality of these engines. Furthermore, demands were made for compensation. When the service team went to make field inspections they discovered that the major problems had to do with installation and the fact that the water pump was not fitted correctly. As a result the success rate was inadequate. After correcting this they made further tests which showed that the success rate was completely up to standard. They also explained the technique for installing and fitting the engines so that requests for compensation were withdrawn and the reputation of our goods was restored. (4) The service teams acted on the general reports of foreign consumers and in October 1983 the corporation formally established the "China Internal Combustion Fittings Ltd" in Hong Kong. Thus they could meet demands and offer prompt service. If there is an urgent need for a replacement part they can fly it directly to the consumer or sell it to them on the spot. This has strengthened the confidence of foreign consumers in using Chinese goods.

### III. Uphold Economic Accounting, Do Good Work in Price Control

"Economic accounting and price control are the basic tasks for improving economic results, they are also the major guarantee for improving the financial situation and expanding exports." During the period when agricultural machinery exports became chaotic for a time, the rush to buy at a high price at home and sell at a low price abroad caused the dollar selling price per horsepower of diesel engines to drop by one-third and the cost of exports to rise steeply. It also led to blind large-scale use of the document against acceptance (D/A) payment method. (This method of payment is a collection of deferred demand drafts. The purchasing party relied on an acceptance bill and may obtain a document for the withdrawal of commodities from the collecting bank. Once the demand draft becomes due, the buyer begins payment.) This D/A method has serious consequences: (1) On the surface, it looks as though a batch of goods is exported; in reality, however, some remain stockpiled in foreign business warehouses and are not sold for a long period of time. (2) Payments for goods exported in large quantities have not yet been recovered so that our exporting units bear the heavy burden of capital and interest. In order to improve the economic results of agricultural machinery exports, the Agricultural Machinery Corp, while working on coordinating management, paid particular attention to the coordination and control of export prices. They adopted resolute and decisive measures: (a) They clearly stipulated that without approval of the main office of the corporation, the D/A payment method may not be used; (b) when exporting units are found competing for sales to foreign countries with low prices, they must promptly notify these units to put a halt to this practice. In this way they rapidly put an end to the recent phenomenon of uncontrolled cost increases for agricultural machinery exports. The cost of 1983 exports dropped by 5 percent over 1982 and in the past 2 years the cost of exports has been kept to an ideal level.

### IV. Continue To Blaze New Trails in Development and Open Up the Market

"As far as agricultural machinery is concerned, the international market is vast; however, the conditions of each market vary. The volume of demand in some markets will not increase sharply; it may even drop. Thus, it is necessary to tap new markets." In order to continue to expand exports, the Agricultural Machinery Corp not only consolidated existing markets, they also tried to open up new markets. They have obtained striking results. At present the number of regions and countries which receive China's agricultural machinery exports have grown from over 50 in 1981 to 95. Comrades at the Agricultural Machinery Corp have said: "The reason why agricultural machinery exports are able to maintain steady growth is due to the opening of new markets." They continually send service teams to new markets, offer technical services in advance of sales and work closely with agricultural machinery production enterprises to blaze new trails in development. In view of the eager demand in new markets for small diesel engines, they improved the designs of the diesel engine power shaft, the hydraulic steering and the starter device as well as other spare and component parts, based on international standards. The Hangzhou Gearbox Plant introduced two sets of marine gearbox technology from abroad. They improved the design

and the new products won the approval of the English and West German ship classification agencies after inspection. Moreover, the products have begun to enter the European Common Market. The goods that have already entered the North American and Latin American markets have continued to make improvements and eagerly blaze new trails based on consumer feedback.

9864

CSO: 4006/876

FOREIGN TRADE AND INVESTMENT

BRIEFS

U.S. EQUIPMENT IN HEILONGJIANG--Harbin, 23 Aug (XINHUA)--The "farming and land reclamation project" under the program to open up wasteland in Heilongjiang's San Jiang Ping Yuan, a program financed by World Bank loans, has begun to show results. After 2 years of efforts, 1.22 million mu of wasteland has been opened up, and 144 million jin of grain and beans has been harvested. The "farming and land reclamation project" will open up 3 million mu of wasteland. Begun in June 1983, it is scheduled for completion in 1986 when production will be in full swing. In the past 2 years, construction personnel taking part in this project built 93,000 square meters of housing, 199,000 square meters of sunning grounds, 144 bridges, and 669 kilometers of roads. A total of 777 units of tractors, harvest combines, and microcomputers were imported from the United States, the Federal Republic of Germany, and Japan for use on this project, accounting for 80 percent of machines and equipment to be imported under this program. Meanwhile, some 1,400 technicians and workers have been trained in various technical training classes. [Text] [Beijing XINHUA Domestic Service in Chinese 0051 GMT 23 Aug 85 OW]

SINO-U.S. JOINT VENTURE--Beijing, 26 Jul (XINHUA)--The China Nonferrous Overseas Engineering Company and the U.S. (?Brown & Root) [Bu Lang Lu Te 1580 2597 6424 3676] International Engineering and Construction Corporation signed in Beijing today an agreement on setting up the China and (?Brown & Root) Engineering and Construction Company. Operating on the basis of equality and mutual benefit, both sides will develop in China and overseas public facilities for industrial and construction projects and provide services in engineering management, engineering design, procurement, and construction work. [Text] [Beijing XINHUA Domestic Service in Chinese 1547 GMT 26 Jul 85 OW]

LIAONING FOREIGN TRADE CONFERENCE--The provincial foreign trade work conference ended this afternoon. Vice Governor Zhu Jiazhen stressed at the conference that the pressing task in our province's foreign trade work is to place the emphasis of foreign trade on exports, creating foreign exchange, and on building a number of trade-industry-agriculture-type export commodity bases. The coastal cities such as Dalian and Dandong and the old industrial bases such as Shenyang and Anshan should accelerate the building of export commodity bases. Vice Governor Zhu Jiazhen said: In our provincial foreign trade work, we should break with the past passive situation of exporting what we have and exporting as much as possible. In the future, we should arrange production of export goods according to the needs of the countries which have

imported the goods. The foreign trade departments should provide international market information in a timely manner and give primary importance to the quality of export goods. Trading, industry, and agriculture should be jointly developed and the economic relations of equally sharing risks and benefits should be established. The provincial foreign trade work conference also formulated specific measures to support and encourage the development and production of export commodities and to create more foreign exchange. [Text] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 21 Aug 85 SK]

**GUIZHOU STONE-LAYING CEREMONY**--The provincial branch of China Travel Service and (Guihai) Company of Hong Kong have decided to jointly build and operate an international hotel called Guizhou Hotel. At 1500 on 10 September, Governor Wang Chaowen, and some 30 provincial and city responsible comrades went to the construction site of Guizhou Hotel to the north of (Yinyuan) Guesthouse. They attended the foundation stone-laying ceremony for the hotel with several hundred workers from provincial construction company, No 4, which is the company handling the project. Representatives from the Hong Kong group also attended the ceremony. At 1540, Wang Chaowen, some 30 provincial and city responsible comrades, Mr (Huang Shitian), general manager of (Guihai) Company of Hong Kong, and responsible comrades of the provincial parties concerned brandished iron shovels, broke the earth, and laid the foundation stone for the 30-storey Guizhou Hotel. It is hoped that the Guizhou-Hong Kong joint venture will make smooth progress and be completed ahead of schedule [Excerpts] [Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 10 Sep 85 HK]

**GUIZHOU INTERNATIONAL COOPERATION TALKS**--The Guizhou provincial international economic and technological cooperation and trade talks opened in Guiyang on 5 September. Nearly 100 friends in financial and business circles from more than 10 countries and regions are attending the meeting. Governor Wang Chaowen made a speech. He said: These talks, held in accordance with China's principle of opening up to the world, are aimed at further strengthening economic and technological cooperation with the countries of the world and the Hong Kong and Macao regions, developing trade relations, deepening understanding, and promoting friendship. Guizhou is a beautiful place with a temperate climate and rich mineral, energy, and biological, and tourism resources. There are very many favorable conditions and extensive prospects for developing external economic and technological cooperation. We warmly welcome friends in financial and business circles from the countries of the world and the Hong Kong and Macao regions to invest in Guizhou's development, to operate joint ventures, or wholly foreign-owned ventures, and to engage in compensation trade, leasing, cooperative production, and so on. We will provide very good environment and conditions for all investors and also offer them favored treatment and conveniences in accordance with the state regulations. [Excerpts] [Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 5 Sep 85 HK]

**HEBEI FOREIGN FUND UTILIZATION**--In the first half of 1985, Hebei Province scored marked achievements in utilizing foreign funds. The province signed



27 foreign investment agreements totaling more than \$U.S. 24 million, a more than 3-time increase in the number of agreements over the corresponding 1984 period and an 18-time increase in volume of investment over the volume of the same 1984 period. [Text] [Shijiazhang Hebei Provincial Service in Mandarin 2300 GMT 20 Aug 85 SK]

HEBEI JOINT-VENTURE HOTEL--On 26 July, the Baoding City Business Development General Company signed a contract in the Shenzhen Economic Zone with the Xinshiji Development Company of Hong Kong with regard to jointly building the Yanzhao Grand Hotel in Baoding City, Hebei Province. Investment in the hotel will total 14 million yuan, of which Baoding City will share 30 percent of the investment and Hong Kong, 70 percent. The 14-story building will occupy a floor space of 13,000 square meters. [Summary] [Shijiazhuang HEBEI RIBAO in Chinese 28 Jul 85 p 1 SK]

HEILONGJIANG FOREIGN INVESTMENT--In the first half of this year, Heilongjiang Province had made new progress in using foreign capital. As of the end of June, the province imported \$31.17 million by getting loans from foreign governments, establishing joint ventures, and conducting compensation trade, showing a two-fold increase over the 1984 figure. According to statistics a total of \$8.6 million in loans were borrowed from the Danish Government to build the Fuyu County dairy products plant, the Anda light industrial machinery plant, and the Harbin training center for producing dairy products. At total of \$18.78 million in foreign capital were imported to build joint ventures. The number of joint ventures increased from 11 in 1984 to 25. After being put into operation, these new joint ventures will create 25 million yuan of output value and an increase of 3 million yuan in taxes and profits every year. [Summary] [Harbin HEILONGJIANG RIBAO in Chinese 23 Jul 85 p 1 SK]

LIAONING FOREIGN CAPITAL--Liaoning Province has made new progress in utilizing foreign capital and importing technologies. In the first half of the year the province signed 502 contracts valued at \$320 million with foreign countries, accounting for 64 percent of the annual target and equal to 72 percent of the 1984 total. Of the 13 cities in the province, 8 had their transaction volume with foreign countries surpass \$10 million. [Text] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 2 Aug 85 SK]

JILIN FOREIGN TRADE--As of the end of June, the value of foreign trade and exports in Jilin Province came to \$172.57 million, accounting for 58 percent of the annual target, and a 19.7-percent increase over the corresponding period in 1984. In the first half of the year the volume of foreign trade and exports reached more than 1.2 million tons, 20 percent more than the 1984 annual export volume. [Excerpts] [Changchun JILIN Ribao in Chinese 25 Jul 85 p 1 SK]

GUIZHOU COOPERATION, TRADE TALKS--The Guizhou provincial talks on international economic and technological cooperation and trade lasted 7 days and concluded in Huaxi on 11 September. Through these talks, the province introduced capital of some \$50 million. The volume of business in exports was some \$10 million. Attending the talks on invitation were some 140 businessmen from 15 countries and regions including Yugoslavia, the United States, Japan, Britain, Germany, the Federal Republic of Germany, Italy, Australia, Switzerland, Sweden, Spain, New Zealand, Singapore, Hong Kong, and Macao. [Summary] [Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 11 Sep 85 HK]

BEIJING FOREIGN TOURISTS--Beijing Municipality achieved new development in tourism in the first half of this year. By the end of June, it received 373,000 tourists from abroad, a 45.7-percent increase over the corresponding 1984 period, and earned 53 percent more foreign exchange than the same period of 1984, which was an unprecedented large increase. These tourists came from 140 countries and regions. Of them, 290,000 were foreigners and 83,000 were Overseas Chinese and Hong Kong, Macao and Taiwan compatriots. [Excerpt] [Beijing BEIJING RIBAO in Chinese 6 August 85 p 1 SK]

BEIJING FOREIGN CONTRACTS--Beijing Municipality achieved remarkable results in use of foreign capital in the first half of this year. A total of 44 contracts were signed with foreign countries on establishing joint ventures and cooperative enterprises. Transactions of the contracts totaled \$584 million. The number of the signed projects was the total of the previous 6 years (1979-1984), and the transactions were 30 percent more than the total of the previous 6 years. [Excerpt] [Beijing BEIJING RIBAO in Chinese 6 Aug 85 p 1 SK]

JIANGSU TRACTOR EXPORT--Eighteen Jiangsu-504 four-wheel drive tractors manufactured by the Qingjiang tractor plant in Jiangsu were shipped to the United States. In an international field day competition in Australia last November, a remodeled Jiangsu-504 four-wheel drive tractor won over products turned out by such industrially advanced countries as the United States, Italy, Japan, and the FRG and was awarded first prize. Thirty-two more such tractors will be shipped to the United States in August. [Excerpts] [Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 1 Aug 85 OW]

JIANGXI TOURIST INDUSTRY--In July, Jiangxi Province received 1,484 tourists from foreign countries and from such regions as Hong Kong and Macao, resulting in a foreign exchange revenue equivalent to 230,000 yuan. In the first half of this year, some 500,000 people visited Jiangxi as tourists. They came either from abroad or from other parts of the country. During this period a total foreign exchange revenue equivalent to some 800,000 yuan was earned from tourism. [Summary] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 24 Aug 85 OW]

SHANGHAI FOREIGN TRADE--Shanghai's foreign trade is growing rapidly. The total value of imports and exports topped U.S.\$2.3 billion in the first 6 months of this year, representing an increase of 3 percent over the same period last year. Exports accounted for \$1.6 billion. Further progress was made in utilizing foreign capital in the first half of this year. Contracts worth more than \$240 million were approved in the same period. This figure represents a 50-fold increase in foreign investment compared with the same period last year. [Summary] [Shanghai City Service in Mandarin 0100 GMT 14 Jul 85 OW]

CSO: 4006/943

SPECIAL ECONOMIC ZONES

SHENZHEN CRACKS FRAUD CASES INVOLVING HONG KONG BUSINESSMEN

HK250652 Beijing ZHONGGUO XINWEN SHE in Chinese 1350 GMT 23 Aug 85

[Text] Guangzhou, 23 Aug (ZHONGGUO XINWEN SHE)--Since the beginning of this year, under the cover of cooperating with mainlanders in doing business, some lawless people from Hong Kong have swindled in Shenzhen, thus causing economic losses to some units. Recently, five fraud cases involving 2.3 million yuan, \$550,000, and HK\$1.17 million have been exposed. Of this, 97.95 percent was swindled by lawless people from Hong Kong. Their tricks include:

First, swindling under the cover of contracting to run enterprises. In June, in the name of Hong Kong's Wei Xing [5898 5281] Company, six Hong Kong citizens, including a certain Mr Tse [6200] and a certain Mr Tam [6223], signed a contract with the Nanhu [0589 3257] Industrial and Commercial Trade Center in Luohu District, Shenzhen City, for running the trade center. Before the contract expired, the manager of the trade center was on sick leave for some time. They took this opportunity to carry out swindling activities with the trade center's chop, checks, and account number which they had obtained by cheating. They falsely announced that there were many imported steel products, watches, and television sets available and that buyers "can pay in Renminbi." In just 1 month, they had succeeded in deceiving about 900 buyers, who signed contracts with them valued at more than 7 million yuan. With the trade center's bank account, they received 2.3 million yuan, that is, the 30 percent deposits remitted by the buyers.

Second, swindling with sales contracts. In May this year, with the recommendations of a certain Mr Lee [2621] of Hong Kong's Huadao [5478 1497] Company, Shenzhen's Dongfang [2639 2455] Company signed a contract with a certain Mr Lam [2651] of Hong Kong's Hanwei [3352 1218] Company to import 250,000 dozen Japanese Zebra brand pens. After the Dongfang Company had remitted HK\$1,095,600 to Hong Kong, which was the first payment installment, the Hanwei Company delivered the first 83,000 dozen pens to Taiping Port, Dongguan County, in 332 cases. The customhouse there opened the cases to examine the goods, only to discover waste paper, and not even a single sign of a pen, inside the cases.

Third, swindling by replacing certified products with waste products. In order to import 200,000 sets of electronic calculator parts, the Overseas

Chinese Association in Nantou, Shenzhen, asked the Guangdong Trust and Trade Company to buy them in Hong Kong on its behalf. This company accordingly ordered these goods from a certain Mr Wong [7806], owner of the Hong Kong "Ming Chou [6900 1352] Company Limited." The Overseas Chinese Association in Nantou then remitted \$550,000 to Ming Chou Company Limited. On the arrival of the goods, it was discovered that of the 200,000 sets of calculator parts, 30 percent were waste products and the rest was out of shape. These goods could not be sold to others. Thus, the Overseas Chinese Association in Nantou suffered a heavy loss.

Shenzhen City's judicial organs are handling these cases of economic crimes. They have arrested some of those involved and are tracking and investigating others in order to severely punish them according to the law.

CSO: 4006/921

## SPECIAL ECONOMIC ZONES

### PRESENT CONDITIONS OF SPECIAL ECONOMIC ZONES ANALYZED

HK101007 Beijing LIAOWANG in Chinese No 34, 26 Aug 85 pp 23-24

[Article by reporters Tang Hua [3282 5478] and Hu Junkai [5176 0193 0418]:  
"A Critical Analysis of the Present Conditions of China's Special Economic  
Zones"]

[Text] Of late, the Shenzhen, Zhuhai, Shantou, and Xiamen Special Economic Zones [SEZ's] have attracted the attention of people in various quarters. In the last 10 days of July, we, as reporters, interviewed the departments concerned and received this impression: The special economic zones, forging ahead in the course of continuously summing up experience, are now moving on to the track of a comprehensive export-oriented economy focusing on industry.

#### Important Topics Faced in the Course of Advance

Since 1980, China's four SEZ's have successively entered a stage of overall development and have made initial progress in providing favorable conditions and a good environment for foreign investors.

Shenzhen, which took the lead in this respect, has, one might well say, been drawing pictures on a blank sheet of paper. In the short space of a few years, in a formerly desolate and out-of-the-way little border town, an industrial zone has begun to take shape, a zone with an initially complete infrastructure, such as water and electricity supplies, roads, factory buildings, commercial buildings, and tourist service facilities. The speed of large-scale construction of the zone suddenly appearing on the horizon is praised as "Shenzhen speed."

The up-and-coming old port city Xiamen has engrossed itself in the construction of its infrastructure for several years. The newly built Xiamen International Airport has been put into operation; the improved wharfs are now available for 10,000-ton ships; and an imported digital program control telephone exchange system has been installed and put into use, thus offering a direct telephone service to such countries or regions as the United States, Japan, and Hong Kong, and to other cities throughout the country. The construction of infrastructural facilities of the Zhuhai and Shantou SEZ's is fully under way.

In the wake of the initial improvement of the investment environment, the attraction of the SEZ's to foreign businessmen has also gradually increased. According to statistics, by late 1984, the four SEZ's had signed with foreign business firms a total of more than 4,700 agreements concerning various economic projects; foreign business firms had agreed to invest a total amount of \$2 billion; and the foreign funds which had actually been used totaled \$840 million.

With the absorption of enormous quantities of foreign exchange in investment, marked changes have taken place in the economic development of the SEZ's such as Shenzhen. In 1984, Shenzhen's industrial output value totaled 1.3 billion yuan, an increase of 20 times over 1979. Its financial revenue totaled 450 million yuan, an increase of more than 10 times over 1979. However, its foreign exchange revenue amounted to only \$87 million, and foreign exchange earnings arising from exports remained rather low. This is because Shenzhen's exported manufactured goods constituted 28 percent of its total. The original idea of establishing the SEZ's was aimed at building comprehensive export-oriented special economic zones with industry as their key link and with tourism, commerce, and real estate as auxiliary areas.

Recently, people overseas have been talking about this question more frequently. Some of them said: "Five years have been spent on the construction of Shenzhen but only 30 percent of its products can be exported to earn foreign exchange. It has not built an export-oriented economy so far and, therefore, it is not a success."

It is indeed an arduous task for the SEZ's to develop themselves in the direction of an export-oriented economy. In June, State Councillor Gu Mu said: To become a true comprehensive export-oriented special zone, Shenzhen, formerly a little border town, had to undergo a process of struggling hard amid difficulties. Over the last few years, Shenzhen concentrated mainly on the construction of infrastructural facilities, including the "seven undertakings and land leveling." It began undertaking industrial projects just 2 or 3 years ago. It is not easy for Shenzhen to enter the international market and to earn foreign exchange by exporting most of its manufactured goods within a period of 2 or 3 years.

Now that the construction of the special zones should focus primarily on the utilization of foreign capital and on export trade, an investment environment attractive to foreign businessmen is therefore indispensable. According to the calculations of related departments, it took 100 million yuan in investment for the Shenzhen SEZ to develop 1 square km of land. At their initial stage of construction, it was also indispensable for the four SEZ's to engage in the tourism industry and in "processing with supplied materials or samples, assembling with supplied parts, and compensatory trade"--the initial stage of an export-oriented economy. Since overall development was initiated, Shenzhen, Zhuhai, and Xiamen have been concentrating their efforts to the full on the construction of their infrastructures. At present, it can only be said that they have just emerged from the "bottom of the curve" of an endeavor to improve the investment environment and are forging ahead

steadily toward the "top of the curve" of an endeavor to build a genuine comprehensive export-oriented economy.

In this transition period, most industries in Shenzhen and other SEZ's are basically using imported equipment and raw and semifinished materials to turn out their products, which are then resold in foreign markets. Turning out "first products" and then selling them in foreign markets by using the assimilated, improved advanced technology and our own methods of operation is just out of the question at present.

#### What We Rely on Is Special Economic Policies

In April 1979, Comrade Deng Xiaoping raised the question of running special zones as an experiment. Six years have passed since then and during this period, Shenzhen and the other SEZ's have done a lot of work.

As far as investment funds in capital construction are concerned, Shenzhen and the other SEZ's relied chiefly on imported foreign capital, local financial accumulation, and bank loans. We were informed by the departments concerned that Shenzhen's total investment in capital construction over the last 5 years amounted to 3,463.72 million yuan. This included 956.22 million yuan in foreign capital, or 27.6 percent of the total; 768.47 million yuan from the city's own financial revenue and funds raised independently by its enterprises, comprising 22.18 percent; 986.62 million yuan in bank loans, accounting for 28.48 percent; 255.67 million yuan in state investment, making up 7.38 percent, which was used mainly in the construction of the "lines of administration" of the special zones; 224.01 million yuan invested by various central departments, provinces, and cities of the country in the city, amounting to 6.47 percent; 149.86 million yuan invested by enterprises from the hinterland areas, constituting 4.33 percent; and 122.87 million yuan from other investment sources, making up 3.55 percent.

Since the beginning of this year, Shenzhen has readjusted the scope of its capital construction. In the January-May period, its total investment in capital construction came to 768.91 million yuan, of which foreign capital, local financial allotments, and funds independently raised by enterprises, which still comprised the major part of the investment, made up 17.4 percent, 34.9 percent, and 29 percent respectively, and state investment amounted just to 1.3 percent.

From these figures, we can easily notice that the present achievements made in the construction of the Shenzhen SEZ are attributable to the special economic policies which the central authorities formulated for the SEZ, rather than the amount of money they have given it.

#### A "Bridgehead" and Four "Windows"

Visitors to Shenzhen, Zhuhai, and the other SEZ's generally get the impression that the SEZ's are bustling with activity and excitement. However, what makes a deep impression on them is that the SEZ's have begun to function as a "bridgehead" in developing trade with other countries and are gradually

becoming a "window" for the introduction of advanced technology, management, and knowledge, and for our foreign policy.

On the one hand, the SEZ's are active in absorbing foreign capital and importing technology and managerial experience and, on the other, they are strengthening economic relations with the hinterland, thus functioning as a radiating force or playing the role of creating a chain reaction. This is called "combination of the import of foreign capital and advanced technology with internal economic cooperation."

Over the last few years, quite a few enterprises and departments from the hinterland areas have come to Shenzhen and other SEZ's to set up "windows," to run "joint-venture" enterprises, to develop business activities, and to gather information. Some value-added products processed in the SEZ's by using raw and semifinished materials and primary products from the hinterland areas have managed to enter the international market.

Meanwhile, all SEZ's have steadily attached importance to the import and popularization of foreign advanced technology, equipment, and management techniques. When just being established, Shenzhen, Xiamen, and the other SEZ's were overanxious for quick results for a time, undertaking any projects so long as there was money to be made. After a while they found that the short-sighted practice of being eager for quick success and instant benefit was not effective in attracting foreign capital, nor was it possible for it to help import really advanced technology in a selective and planned way and, moreover, it would very likely make the SEZ's a hotchpotch of something that resembles nothing. Therefore, instead of concentrating on the import of complete sets of assembly lines that could make bigger profits and produce quicker results, they began to give priority to the import of complete sets of production lines, the improvement of the technical level of industries, and the acceleration of the use of more domestically produced parts or components, and began to stress the import and development of the production techniques for producing parts or components necessary for the production of complete sets of machinery for the country. This will help us get away from the passive position in which we used to engage exclusively in the processing and assembling sectors, for whose raw and semifinished materials and parts we were, for quite some time, dependent on foreign countries or handicapped by foreign firms, will help us open up new production revenues, develop new products and varieties, and increase the staying power of developing industries, and also will help us shift the imported technology, after it is assimilated and absorbed, to the hinterland areas, so as to bring along the latter in developing new products, and ensure the SEZ's are truly run as "windows" with real strength.

In the preceding period, taking advantage of the special policies and preferential treatment given to the special zones, some enterprises in Shenzhen indulged in illegal transactions in state-controlled exports and imports in a big way and in defiance of the spirit of the party directives and sought profit using price disparity both at home and abroad. This practice was extremely wrong. Attaching great importance to the problem, the government of Shenzhen City is correcting it.



The Problems Cropping Up in the Second Half of Last Year Have Been Resolved to Some Extent

A quick development speed was recorded in Shenzhen and the other SEZ's in 1984, as was the emergence of a healthy overall developmental trend. But some errors have been made and some problems have arisen in the course of development. These can be seen in two major aspects. In the first place, the scale of investment in capital construction of the SEZ's has been expanded too drastically. In the second place, some enterprises have exhausted every means, legal or illegal, for raising funds, thus giving rise to new unhealthy tendencies.

In the latter half of last year, the SEZ's of Shenzhen, Zhuhai, and Xiamen rashly and vigorously started industrial and trade projects. They became engaged in too many fields at the same time.

After the state appropriately curtailed the scope of investment in capital construction, Shenzhen's scheduled investment in capital construction, totaling 2.5 billion yuan, has been reduced to the same level as a year ago. The level of investment in capital construction in the other three SEZ's has remained basically the same as in the previous year. This will promote the healthy development of the construction of the SEZ's on the basis of a basic balance achieved in such fields as funds, materials and goods, energy, and transportation, further improve the investment environment and strengthen the import of technology, and ensure the normal operation of the cooperative projects with foreign investors.

In order to develop at a high speed, the SEZ's badly needed large amounts of funds last year. Some units and departments exhausted every means, legal or illegal, to pool funds and made use of the opportunity to go in for unhealthy practices. For example, some units and departments imported great quantities of certain popular consumer goods in short supply and resold them to other parts of the country, while others engaged in illegal buying and reselling of foreign exchange, and so on. From November of last year to March of this year, in investigations into more than 300 big firms which dealt with foreign exchange revenue and expenditure, the Shenzhen SEZ authorities found that 66 of these firms had been involved in buying and selling foreign exchange in violation of the state's foreign exchange control system. At present, the evil practice of overt illegal buying and reselling of foreign exchange has been checked in all the SEZ's and the authorities concerned are working out procedures to be adopted in the future for allocating foreign exchange.

#### The First Step Toward the Track of an Export-Oriented Economy

The development of the SEZ's in the direction of a comprehensive export-oriented economy has always been an issue about which the central authorities have shown concern. In 1983, Premier Zhao Ziyang demanded that the SEZ's pay attention to introduction of knowledge-intensive and technology-intensive industrial projects and concentrate their efforts on raising the production of export products. During the Spring Festival this year, State Councillor

Gu Mu made a special trip to Shenzhen, during which he reiterated in unequivocal terms that Shenzhen was required to actively start the process of development of a genuine export-oriented economy from then on, and to try hard to expand export trade and raise foreign exchange earnings.

We learned from the Special Economic Zones Office of the State Council that all SEZ's have already made some efforts to set up an export-oriented economic structure. In the first half of this year, the industrial output value of joint ventures using Chinese and foreign investment and wholly owned foreign enterprises constituted 56 percent of the city's total, or an increase of 120 percent over the same period last year. From January to May of this year, Shenzhen's gross value of export commodities totaled \$176 million, an increase of 210 percent over the same period last year. They are planning to increase the ratio of manufactured goods exported to other countries by 40 percent this year and by 60 percent in 1988.

In the Zhuhai SEZ, many enterprises which have the potential to develop the production of export goods but which used to focus their attention on the domestic market have now shifted their orientation to export or have tried to raise the production of export products. In the first 5 months of this year, 31 export-oriented enterprises which are to produce export products were established in Zhuhai. They are expected to bring in foreign exchange earnings of more than \$23 million a year.

The Xiamen SEZ, which has all along been working for the construction of infrastructural facilities, has given priority to the import of projects in the five major industries, comprising the electronics, precision machinery, fine industrial chemicals, new building materials, and light and textile, as well as food industries. From January to April, the zone signed 73 contracts with foreign firms, which involved \$290 million in investment. The Shantou SEZ has also made new headway in its construction and its import of foreign capital and the foreign exchange earnings from its export trade this year have shown an upward trend.

CSO: 4006/943

SPECIAL ECONOMIC ZONES

SHANTOU ECONOMIC ZONE FORMS THINK TANK FOR DEVELOPMENT

HK270914 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 22 Aug 85

[Text] The Shantou Special Economic Zone has recruited 21 well-known industrial and commercial persons this year from Hong Kong and Macao as consultants, and has formed a consultative committee. This overseas think tank, which is about a year old, has functioned as a high-quality consultative body and given advice and guidance, thereby making contributions toward expediting the building of the Shantou Special Economic Zone.

Over the past year, the consultants have proposed many brilliant and specific suggestions in such areas as improving the investment environment of the Shantou Special Economic Zone, the overall plans for the zone, the issue of raising funds, carrying out propaganda work overseas, attracting qualified personnel from other places, training qualified personnel, and formulating plans for attracting foreign businessmen.

The consultants have attached importance to the social links and have actively encouraged Hong Kong, Macao and overseas businessmen to invest and run businesses in the Shantou Special Economic Zone and Shantou City.

At the investment talks on opening up coastal cities and special economic zones, which were held in Hong Kong last year, the consultants assisted the Shantou Special Economic Zone in conducting propaganda, contacting clients, and taking part in the talks. Therefore, the Shantou delegation was able to hold successful talks with more than 290 foreign businessmen and signed 52 contracts, agreements, and letters of intention.

CSO: 4006/943

## SPECIAL ECONOMIC ZONES

### BRIEFS

SHANTOU SEZ MAKES PROGRESS--The Shantou Special Economic Zone has made unprecedented progress in its development this year. From January to the end of July, the special economic zone signed 145 contracts involving HK\$1.3 billion in investment. This figure is greater than the total for the previous 3 years in terms of the number of contracts signed and the amount of investment. In order to attract foreigners to run enterprises in the special economic zone, the Shantou Special Economic Zone has seriously implemented the policy of mutual benefit on equal basis, in addition to doing well in capital construction and creating a good investment environment. In particular, it has given preferential treatment to investors in the areas of land use charges, factory rent, and remuneration. Further implementation of preferential policies and improvement in the investment environment have attracted more foreign investors dealing in a greater variety of businesses. At present, the foreign businessmen who invest and run factories in the special economic zones come from Hong Kong, Macao, and the Southeast Asia regions, as well as from Europe and America. The factories run by them, 30 at present, engage in garments, vacuum electroplated products, furniture, electronic computers, porcelain, and so on. The products made are basically for export, thereby achieving better economic results. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 3 Sep 85 HK]

GUANGDONG'S SHENZHEN DEVELOPMENT--Guangzhou, 20 Aug (XINHUA)--Using HK\$590 million of foreign capital and 100 million yuan in domestic funds, the South Sea Petroleum and Shenzhen Development Service Corporation, founded in August 1984, has built 9 kilometers of main road, leveled more than 1.8 million square meters of land, removed over 1.5 million cubic meters of earth and stone from hills, reclaimed 460,000 square meters of land from the sea to build wharves, and built 41 factory and office buildings. It has completed 5 of the 10 construction zones it plans to develop. A multipurpose modern port city is beginning to take shape on Nantoubandao, east of the Zhujiang river mouth. [Summary] [Beijing XINHUA Domestic Service in Chinese 0101 GMT 20 Aug 85 OW]

CSO: 4006/917

## TRANSPORTATION

### ELECTRIFICATION OF CHENGDU-CHONGQING RAILWAY REPORTED

Beijing TIEDAO ZHISHI [RAILWAY KNOWLEDGE] in Chinese No 2, 28 Mar 85 pp 4-5

[Article by Feng Jinzhu [7458 6855 2691]: "Electrification of the Chengdu-Chongqing Railway"]

[Text] The Chengdu-Chongqing Railway is an extremely important communications artery in Sichuan Province and is the first railway built after the founding of New China. It begins at the historically famous city of Chengdu, crosses the Longquan Mountain Range, runs along the right bank of the Tuo Jiang, passes through the rich western Sichuan plain, traverses Jianyang, Ziyang, Zizhong and Neijiang, crosses the Tuo Jiang at Baimu Township, enters the tail end of the Huabao Mountainous Region at Longchang, travels through Rongchang, Yongchuan, arrives at Zhuyangqi and follows the left bank of the Chang Jiang, running eastward with the mountain on one side and the river on the other through Jiangjin before reaching Chongqing, the largest city in the southwest. The entire length is 505 km. Like the Beijing-Tianjin region, the Shanghai-Ningbo-Hangzhou region and the Zhu Jiang delta region, the region which this railway traverses is the most densely populated and most advanced industrial and agricultural region in our country. At its northern tip, it links up with the Baoji-Chengdu and the Chengdu-Kunming railways. At its southern tip, it links up with the Chongqing-Guiyang and Xiangfan-Chengdu railways. In the middle, at Neijiang, it links up with the Neijiang-Kunming Railway. It not only is a major passageway that runs through the important industrial cities in Sichuan, but is also a communications hub that links the southwestern, northwestern and central-south regions.

#### I. Rich Products and Resources

Along the Chengdu-Chongqing Railway are extremely abundant mineral products, including coal, iron, petroleum, natural gas, well salt, gold and phosphate. Coal is primarily found in the anticlinal mountainous district near Chongqing as well as in Yongchuan, Longchang and Weiyuan. Preliminary estimates suggest that there are over 100 million tons of coal reserve at the Yongchuan Coal Mine. In addition, the coal quality is superior with little ash content--the best fuel for smelting steel. Iron reserves are also abundant, distributed over Qijiang, Weiyuan and Fuling. Petroleum is another treasure found along the railway line. The Sichuan Basin may very likely become a region of oilfields. From east to west, it is some 400 km from Jianwei to Da Xian, and

from south to north, it is some 300 km from Jiangyou to Lu Xian. This region is vast, with over 20 counties, including Xiangleshan, Zizhong, Jiangjin and Chongqing, all of which have abundant petroleum resources. Zigong City is a world-famous artesian well salt region, producing 520 million jin of well salt annually, sold to Hunan, Guizhou, Shaanxi, Yunnan and Xizang. Natural gas reserves along the railway line are even more abundant. As early as the Qin dynasty, between the years 221 and 207 B.C., the people in the artesian well region of Sichuan had begun to use natural gas to manufacture salt. Currently, over 60 natural gas fields are being developed. In 1983, the annual output of natural gas totaled 5.3 billion cubic meters, constituting 64 percent of national output. This is the largest natural gas base in our country.

The area along the Chengdu-Chongqing railway is also an agriculturally-rich grain depot. The vast Chengdu Plain to the west of the Chengdu-Chongqing Railway is covered with a boundless stretch of rice fields. People call this "the grain depot of Sichuan." The area near Yongchuan and Dazu is also famous for grain production. Along the Chengdu-Chongqing Railway, extremely abundant economic crops are also found. For instance, in the area around the Tuo Jiang valley, sugar cane is found all over the mountains and plains. In the area around Neijiang alone, some 3 million dan of sugar are produced every year. The people affectionately refer to Neijiang City as the "sweet city." Sugar cane can be used in manufacturing sugar as well as in refining alcohol. Neijiang can produce over 1.2 million gallons of alcohol every year. Jute output along the railway line is also high. The grass cloth produced by Longchang and Rongchang are well-known nationally. The sweet and delicious Sichuan mandarin orange is also a special product found in the various counties from Jintang to Jiangjin. Other famous products include tung oil, tea leaves, flue-cured tobacco, hog bristles, raw silk, leather and medicinal materials.

## II. The Technological Transformation Involving Electrification

Since beginning service in 1952, the Chengdu-Chongqing Railway handled less than 2 million tons of transportation every year. With the continuous development of China's socialist construction and the rapid growth of Sichuan's industrial and agricultural production, by 1975 the railway transportation volume increased to 7 million tons. Although the railway had undergone numerous transformations, the existing facilities could handle only 6.1 million tons, such that the saturation point for transport capacity had been far exceeded. In addition, the passenger and freight volumes at that time were both growing sharply, resulting in extreme tension. Therefore, in 1975 the Ministry of Railways decided to carry out technological transformation on this railway involving electrification. Later, this was designated as a key capital construction project of the state.

Electrification first addressed the needs of power hauling. This included rebuilding and strengthening the bridges and tunnels along the entire line, increasing the number of tracks, improving station layouts, extending the effective length of the arrival and departure sections at the railway stations, enlarging the smallest curve radius, and changing to the use of 50 kg/meter heavy-type steel rails. As for the electricity-supply in hauling, we

adopted the single-phase frequency 25 kv exchange mode. The connecting network adopted the in-phase unilateral electricity supply. The hauling transformer plant set up two hauling transformers in synchronous operation. To minimize the influence and interference of the powerful electricity of the electrified railway on telecommunications facilities independent of the railway, a current-absorption transformer was installed in the hauling electricity-supply system--a backflow device. In addition, in order to compensate the reactive power portion of the hauling load, we installed a bridging condensor compensatory device. We also adopted for the first time some of the latest technological devices--vacuum circuit breakers and coreless reactors. For the lead rails between stations and at the train stations, we adopted the full-compensatory elastic chain suspension, and for the other rails at the stations, we adopted the semi-compensatory elastic chain suspension. With respect to communications signals, the various stations along the line all adopted concentrated relays for small stations and semi-automatic block-signal relays between stations. All the open lines were changed to ground small coaxial comprehensive cables, with the installation of a 300-circuit carrier telecommunications facility. The condition of the circuits and the technological equipment have all improved greatly.

After electrification of the Chengdu-Chongqing Railway, the service capacity of the entire line has increased from 31.5 trains a day in the past to 45. The transportation capacity has increased from 6.1 million tons every year in the past to some 14 million tons, up 1.5-fold and equivalent to building an additional Chengdu-Chongqing Railway. The fixed hauling quantity of the cars will reach 26 million tons, 30 to 80 percent higher than before electrification. Furthermore, the fixed hauling quantity for the Chengdu-Neijiang section and the Neijiang-Chongqing section is also unified. At the same time, the speed of operations has improved to a great extent and intersections have been significantly lengthened, thereby reducing operating and stopover times and speeding up the turnover of goods, locomotives, and cars.

Electrification of the main trunk line began in April 1980. By late October 1984, the Chengdu-Neijiang section was completed, with a total of 219 km. The remaining 286 km from Neijiang to Chongqing will be completed and put into operation by the end of 1985. This will link up with the Baoji-Chengdu Railway, the first electrified railway in China, for a total length of 1181 km, the longest electrified railway in China today.

### III. Important Cities Along the Line

Chengdu City, Rong [5554] for short, is a famous city enjoying some 2,000 years of history. It has been the political, economic, cultural and military center of the southwest since the Qin and Han dynasties. Chengdu enjoys an extremely important position in Sichuan Province. It is surrounded by plains with fertile alluvial soil. It also has an irrigation system that goes far back in history--the Dujiangan Water Conservancy Project, which is densely covered with rivers and canals and which an extremely abundant agricultural output. The Chengdu-Chongqing, Baoji-Chengdu, Chengdu-Kunming and Chengdu-Guan County railways converge here. Also, there are eight highways which go from here to various places inside and outside the province. The Fu He, which

surrounds Chengdu City, has motor boats going to Leshan and Yibin and sailing into the Chang Jiang. Communications is extremely convenient. Currently, Chengdu is not only the political, cultural and economic center of the whole province, but is also a diversified industrial base in the province. Its measuring and cutting apparatuses are famous throughout the country. Its famous handicraft products include brocade and lacquerware. In this ancient city, there are many scenic spots and historical sites. The major ones are Du Fu's Study, the Wuhou Ancestral Temple, the Baihua Pond, the Qingyang Palace, and the Wangjiang Tower.

Chongqing City, Yu [3254] for short, is at the juncture of the Chang Jiang and the Jialing Jiang and of the Chengdu-Chongqing, Xiangfan-Chongqing and Chongqing-Guiyang railways. It is the largest industrial and commercial center and the hub of water and land communications in China's southwest. Currently, it has become a comprehensive industrial city with developed heavy and light industries. Along the banks of the Chang Jiang and Jialing Jiang, factories stand like trees in a forest. There are factories involved in such heavy industries as iron and steel, coal, electricity, machine-building and chemical industry which are necessary for the development of the national economy. There are also all kinds of light industrial and local industries which satisfy the needs of the people's livelihood. The heart of the city is on a peninsula between the Jialing Jiang and the Chang Jiang. The ridge of a hill runs north to south. From the foothills to the top of the hill, it is green all the year round. Tile-roofed houses stand closely side by side like the teeth of a comb. The Chang Jiang and Jialing Jiang surround this hilly city like two silvery-white strips at the front of a garment, presenting an exceptionally pretty and spectacular picture. The major scenic spots and revolutionary memorial sites include the North Springs, the South Springs, the Hongyan Revolutionary Memorial Hall and the Zengjiayan Branch Museum.

Neijiang City, situated in the lower reaches of the Tuo Jiang, stands at the junction of the Chengdu-Chongqing and Neijiang-Kunming railways. It is the sugar manufacturing center of Sichuan, and is rich in preserved fruits and alcohol. Its cotton textile and paper manufacturing industries are also well-developed.

9335

CSO: 4006/781



## TRANSPORTATION

### DEVELOPMENT OF YINGTAN-XIAMEN RAILWAY REPORTED

Beijing TIEDAO ZHISHI [RAILWAY KNOWLEDGE] in Chinese No 2, 28 Mar 85 pp 6-7

[Article by Cai Shaoyuan [5591 4801 3293]: "The Yingtan-Xiamen Railway, A Major Artery to the Special Economic Zone"]

[Text] Originating from Yingtan City in Jiangxi Province, the Yingtan-Xiamen Railway runs from north to south through Fujian Province to the Xiamen Special Economic Zone [SEZ]. This is one of the new trunk lines built in the early days of the nation's founding. For 30 years, this railway has rendered major contributions to Fujian's economic construction and industrial and agricultural development. With the opening to the outside world of the SEZ, the transportation volume increases rapidly. The transportation task of the Yingtan-Xiamen Railway has become more glorious, though arduous.

#### I. General Picture of the Line

Fujian Province once had a railway, a narrow 28-km railway from Jiangdong to Songyu built in 1906 by overseas Chinese compatriots. It was named the Yingtan-Xiamen Railway, when in reality it was some 40 li from Zhangzhou across from the Jiulong Jiang in the north and across the sea from Xiamen in the south. This "appendix" which crossed neither the river nor the sea failed to play a role economically. In the early days of the War of Resistance Against Japan it was torn up by the Guomindang Government. After the founding of New China, the state made a decision to build the Yingtan-Xiamen Railway in the First 5-Year Plan. Construction began on 21 February 1955, and the railway was laid all the way to Xiamen by 9 December 1956.

The Yingtan-Xiamen Railway originates in the north at the Yingtan station of the Hangzhou-Nanchang Railway. It follows the Lu Xi upstream, traverses the Zi Xi, climbs the Dahe Ridge of the Wuyi Mountain Range, runs south along the eastern bank of the Futun Xi, passes through Guangze and Shaowu to reach Laizhou, crosses over the Futun Xi, continues southwestward along the northern bank of the Sha Xi, and crosses the Sha Xi between Gongchuan and Yong'an. After Yong'an, it goes through the Daiyun Shan at Lingtong and enters the Jiulong Jiang water system, crosses the Xinqiao He three times to reach Zhangping, continues along the eastern bank of the Jiulong Jiang, passes Meishuikeng, Guokeng and Jiaomei, crosses Henglin Bay and the Jimei Gaoqi Strait, and finally arrives in Xiamen Island. The total length is 697.7 km. In addition,

the branch line from Waiyang to Nanping is 24.2 km, from Guokeng to Zhangzhou 11.3 km. The Waiyang-Nanping branch line extends to Fuzhou to form the Waiyang-Fuzhou line.

The topography of the area along the Yingtian-Xiamen Railway is complex and construction of the railway was arduous. The 74 km from Zi Xi to Shaowu which passes through the Wuyi Mountain Range, the obstacle between Jiangxi and Fujian provinces, is a long large tunnel with a 22-percent slope, a section which involves twin-engine hauling. The smallest curve radius is 250 meters. Southward from Shaowu, the railway line has mountains on one side and water on the other, with a retaining wall for the steep slope and guardrails for the deep chasm. The 104 km from Yong'an to Zhangping runs through Fenshui Ling of the Daiyun Mountain Range in central Fujian. This is another long tunnel with a 20-percent slope and is another section involving twin-engine hauling. Throughout the entire line, there are 622 points where filling and digging goes as deep as 12 to 20 meters. The total extension is 103.8 km; there are 47 tunnels and more than 1,970 bridges.

Crossing Henglin and Jimei bays are two sea walls with a total length of 5 km built with nearly 1 million cubic meters of stone materials. This is commonly referred to as the "10-li sea wall," which is 8.7 km shorter than the planned detour around the sea. This is the first long and large sea wall constructed in China, a significant feat in the history of railroad construction.

## II. Technological Transformation

In the 30 years since the Yingtian-Xiamen Railway has been in service, over 200 million passengers have been transported and over 300 million tons of cargo have been dispatched. In the early days of operation, 3 passenger trains were in operation, with an annual passenger volume of 2.5 million people. By 1983, 9 passenger trains were in operation, increasing passenger volume to some 12 million people. In the early stage, 7 freight trains were in operation, involving an annual freight volume of 2.5 million tons. By 1983, over 20 freight trains were in operation, increasing the freight volume to some 13 million tons. In general, the passenger and freight volume increased more than 4-fold. Since the opening of the SEZ, transportation has become even busier.

In the last 30 years, with the continuous growth in transport volume, we have carried out technological transformation step by step on the Yingtian-Xiamen Railway. In the early days of its operation, there were only 31 stations on the entire line, the average distance between two stations being over 20 km. With the addition of intermediate stations and passing stations, there are 75 stations at present. This has more than doubled the service capacity between stations. In addition, we have also increased and extended the tracks and built new passenger stations and cargo transport facilities. Originally, the Minzhong Basin had the Meilie Station where there were two half tracks. With the building and development of Sanming City, the Sanming Station presently has been built into a Second Class station. In addition, there is the Sanming East Station. In order to improve the marshalling capacity, the Laizhou Marshalling Station, which only had 12 tracks formerly, now has 31. The simple camel's hump of the 1960's has been updated into double humps.

Currently, the marshalling capacity is five times that of the early period. The Zhangping Station formerly only had three half tracks. After being changed into a section station, it now has over 20 tracks, and has become a Second Class station. It will gradually make its transition into a marshalling station. After technological transformation, the Shaowu and Yongan section stations will improve their operational capacity. With respect to signaling, the train-staff block signal facility used previously is now a semi-automatic block signal facility. The key stations have changed to concentrated relay facilities, which has improved the capability of the stations to receive and dispatch trains. The entire line can receive and dispatch an additional one to two trains. In addition, to improve freight volume, the KD7 steam engine (1220 HP) used formerly will gradually be replaced by the FD steam engine (2390 HP), which will improve hauling capacity by over 20 percent.

In addition to this technological transformation, over 1,000 cases involving landslides, obstructed tracks, and falling rocks have been repaired, guaranteeing safety in train service.

In order to adapt to the rapid economic growth of Fujian Province and the SEZ, this railway will be electrified in two separate stages in the years 1990 and 2000.

### III. Construction of the SEZ, Product Resources

The Xiamen SEZ has developed very rapidly. New train stations, an international airport, harbors and piers, factories, and houses have come into existence like young bamboos after a rain. A preliminary industrial and communications and transportation network has been formed. On May Day 1983, the new Xiamen Train Station was completed. The total area was over 8,600 square meters, 10 times bigger than the former simple train station. The waiting room can accommodate 1,500 travelers. The newly-completed Xiamen North Station utilized the previous three tracks of the Gaoqi Station and built seven new arrival-departure marshalling tracks and a special-use railway that runs to the new Xiamen harbor. The import-export materials can be transported in all directions from the harbor via the railroad. The international airport can operate to foreign countries. With respect to shipping, there are two passenger liners that serve Hong Kong at regular intervals. Moreover, there are express trains from Xiamen to Shanghai and from Xiamen to Fuzhou.

Along the Yingtan-Xiamen Railway, there are abundant product resources, which form the material basis for the SEZ in developing foreign trade. Well-known both at home and abroad are Xiamen's textile and light industrial products, Zhangzhou's fruits and canned goods, Longyan's Chengang Wine and Yongan's flue-cured tobacco. In addition, Yongan, Sha Xian and Shaowu also produce mushrooms, dried bamboo shoots, dried longan pulp, white fungus, tea leaves and rosin, special products which are highly popular both at home and abroad. Timber is a major product of Fujian. Every year, the railway transport volume totals 3 million cubic meters. Shunchang has all along been known as the "green treasure." Every year, it supplies 200,000 cubic meters of timber and 1 million sticks of mao bamboo to the state.

Coal reserves in Yong'an total 400 million tons. Zhangping, Longyan and Yongding abound in anthracite. The railway transports a total of 2.6 million tons of coal each year.

The Panluo Iron Mine is 50 km from Zhangping and is the largest iron mine in the province. The iron-containing ore constitutes over 50 percent. Every year, the railway transports a total of over 600,000 tons. In addition, manganese, copper, lead, sulphur and graphite reserves are extremely abundant.

The Yong'an Cement Factory produces 500,000 tons of cement annually and is the largest cement factory in the province. The Yong'an Vinylon Factory produces 8,000 tons of short fiber annually. The Sanming Iron and Steel Co, heavy machinery plants, chemical plants, as well as such materials as limestone, salt and mining construction materials all register an annual transportation volume of over 1 million tons.

The Yingtan-Xiamen Railway transports over 1 million tons annually of import-export materials, including the native and special products transported from all over the country, as well as the imported large machinery equipment and chemical fertilizers.

#### IV. Famous Tourist Spots

Along the railway line are green hills and blue waters. The scenery is beautiful, with many scenic and historical sites. It is a famous scenic spot for developing the tourist business.

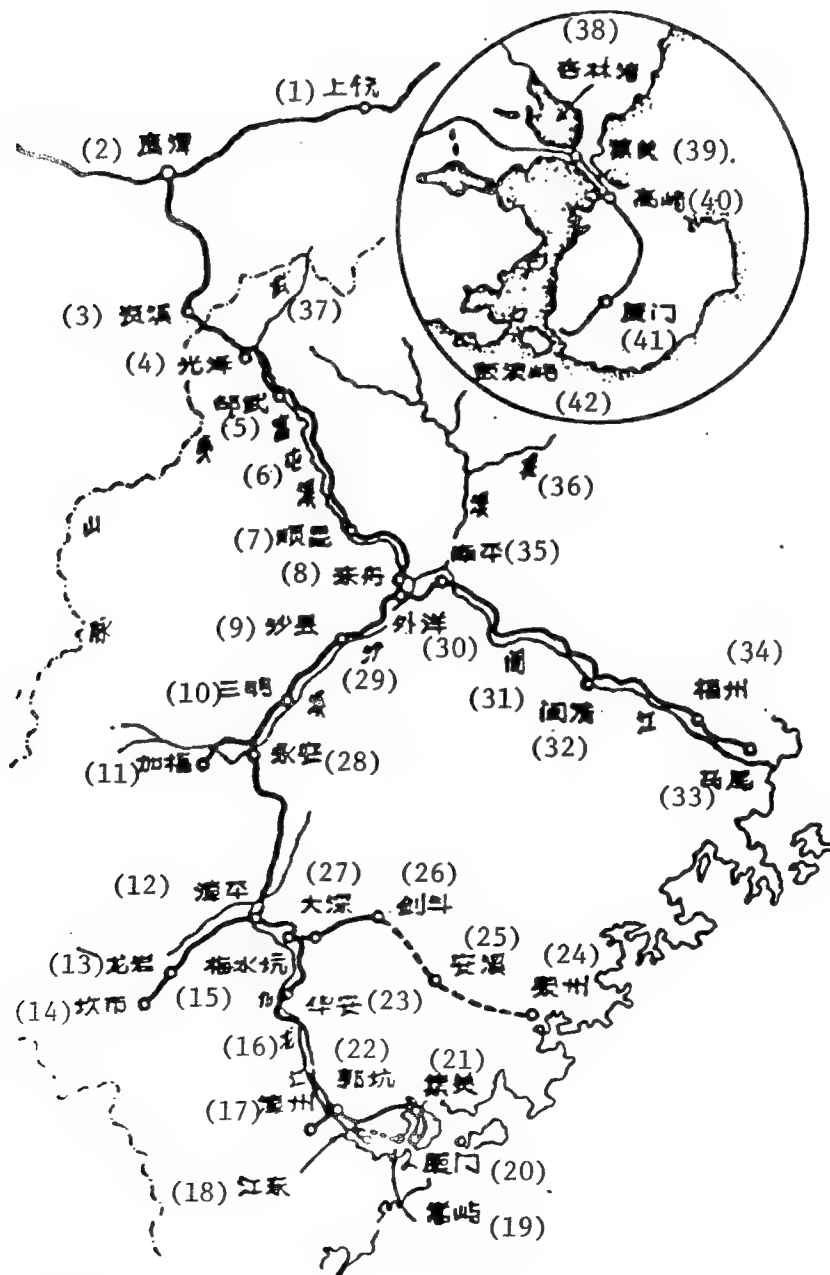
The world-famous Wuyi Scenic Spot north of Shaowu is accessible by car. It has a circumference of 120 li. Since the Qin and Han dynasties it has been acclaimed by emperors and famous men from every quarter as the "paradise on earth." The caves in the cliffs hide miraculous hanging boat-shaped coffins that are rare in the world. The Wuyi Mountain nature preserve has extremely abundant animal and vegetable resources and has the reputation as the "key" to the study of Asian animals and vegetation. Of the 32 orders of insects found throughout China, 31 can be obtained here.

Longyan City is situated 50 km west of Zhangping and is a famous western Fujian city which has enjoyed a long history. In 1929, the Red Fourth Army went "Straight down to Longyan and Shanghang," where they established Soviet political authority. The following lines in Chairman Mao's poetry "We have reclaimed part of the golden bowl/And land is being parceled out with a will" precisely describes the vigorous upsurge of the revolution at that time. Near Longyan is the site of the Gutian Conference and a museum and the Sujiapo Cave where Chairman Mao once lived. There are many precious relics from the revolutionary war period. In 1981, Longyan was converted from a county to a city. The gross value of industrial and agricultural output was 27 times that of 1949.

Xiamen is a world-famous beautiful city. Xiamen University sits with the mountain to its back and the sea in front. The environment is beautiful. It is one of the major institutions of higher learning in China. The Nanputuo is right next to Xiamen University. The temple structures are magnificent. It

is one of the famous Buddhist scenic spots in East Asia. Gulang Island is quiet and elegant. Historically, it was once the command podium where Zheng Chenggong trained his navy. Ascending Riguang Rock, one gains a bird's eye view of the entire city of Xiamen and can even see Jinmen Island from afar. Inside the Turtle Garden which was built by encircling the sea, we can find the tomb of Mr Chen Jiageng, a patriotic overseas Chinese compatriot. The Jimei School Village has over 10 institutions of higher learning and secondary vocational schools. The buildings express nationality characteristics. On the stone wall close to the sea, the white waves roll in. In the boundless expanse of sea and sky, a small pavilion stands gracefully, fully manifesting the radiance and enchantment of Jimei.

Map of the Yingtian-Xiamen Railway



[Key on following page]

Key:

- |                   |                         |
|-------------------|-------------------------|
| 1. Shangrao       | 22. Guokeng             |
| 2. Yingtan        | 23. Hua'an              |
| 3. Zixi           | 24. Quanzhou            |
| 4. Guangze        | 25. Anxi                |
| 5. Shaowu         | 26. Jiandou             |
| 6. Futun Xi       | 27. Dashen              |
| 7. Shunchang      | 28. Yongan              |
| 8. Laizhou        | 29. Sha Xi              |
| 9. Sha Xian       | 30. Waiyang             |
| 10. Sanming       | 31. Min Jiang           |
| 11. Jiafu         | 32. Minqing             |
| 12. Zhangping     | 33. Mawei               |
| 13. Longyan       | 34. Fuzhou              |
| 14. Kanshi        | 35. Nanping             |
| 15. Meishuikeng   | 36. Jian Xi             |
| 16. Jiulong Jiang | 37. Wuyi Mountain Range |
| 17. Zhangzhou     | 38. Henglin Bay         |
| 18. Jiangdong     | 39. Jimei               |
| 19. Songyu        | 40. Gaoqi               |
| 20. Xiamen        | 41. Xiamen              |
| 21. Jimei         | 42. Guliang Island      |

9335

CSO: 4006/781

TAIWAN

DISPARITY ON FOREIGN, LOCAL INVESTMENT NOTED

OW291151 Taipei CHINA POST in English 26 Aug 85 p 12

[Text] The great disparity of investment between foreign and local businesses in Taiwan's economy has drawn the attention of economic authorities, according to an official at the Ministry of Economic Affairs (MOEA).

Statistics compiled by the MOEA indicated that up to August, the total amount of foreign and overseas-Chinese investment in the nation has increased about 42 percent from the same period last year, while local investment has decreased.

The official attributed the listless investment mood of local businessmen to a lack of confidence in the nation's economic prospect and the troubles and unfavorable terms which may be incurred including the implementation of the Labor Standards Law, and low profits and high risks.

As for the rapid growth of foreign and overseas-Chinese investment here, the liberalization and internationalization of the local market is the main reason, he observed.

Unlike local entrepreneurs, foreign businessmen may think that Taiwan is an ideal investment environment in the world economic arena. Moreover, the investment in Taiwan may only be a small part of their multinational investment, which reduces the risk of loss.

Local businesses, however, obviously regard investment at present as "putting all their eggs in one basket," the official said.

CSO: 4020/358

HONG KONG MEDIA ON CHINA

FOREIGN BANKS OFFER PRC LOANS AT 'BELOW COST' RATES

HK200801 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 20 Aug 85 pp 1, 3

[Article by Olivia Sin]

[Text] Foreign banks are offering cut-throat financing rates in their attempts to enter the competitive China market, says a veteran China banker.

Mr Peter Yip, manager of the China desk of Banque Nationale de Paris (BNP), said some banks are lending at rates "below cost" to joint ventures and Chinese corporations.

"Their loans are rated below Libor or Hibor (London or Hong Kong interbank offered rates)," he said.

Mr Yip told BUSINESS NEWS that these banks are usually "newcomers" to the market and are medium-sized institutions.

Some of them belong to trading giants which apart from lending to China are also aggressively marketing their products.

That is why they can afford to earn no profit in one sector by making it up in another stream of the same group.

But many European banks, which have no trading houses, are at a disadvantage in penetrating the China market, he said.

On the surface, there is nothing wrong with the practice of giving low-cost finance, which is more than welcomed by China, Mr Yip said.

But it is likely to give a false impression to China that it can continue asking for low-cost funds from the banks.

In the end, the banks will be the ones to suffer. Their profit margins will be trimmed to unacceptable levels.

"I don't think they can go on lending at ridiculously low rates for very long," he said.



Other sources agreed that low-cost finance has been extended by banks which "bow" to China's demands.

"China is demanding very low interest rates. Banks don't have much choice. Either they lend or they withdraw," one source said.

The source also said some banks have made cheap loans to establish good relationships with state-owned enterprises.

Another source said strong pressure from the head offices of foreign banks for a better performance in the China sector has also forced some bankers to lend at rates under cost.

It is understood that few banks have succeeded in reaping large profits out of their China loan portfolios.

"The China market is extremely competitive, banks are undercutting each other to snatch business," Mr Yip said.

On bank loan guarantees he said the Chinese Government has cleared up some confusion by issuing the names of 26 state-owned organizations which are authorized to be loan guarantors.

However, he said banks are finding it hard to verify the financial strength of the 26 institutions because of lack of information.

In addition, banks do not know up to what limit these institutions can provide a guarantee.

The list included the Bank of China and its branches, the Shenzhen branches of Nanyang Commercial Bank and Guangdong Provincial Bank, and the four foreign banks which have branches in Shanghai, including Hong Kong Bank and the Chartered Bank.

Others on the list are the China International Trust and Investment Corp and 15 more trust and investment corporations set up in various centers, such as Tianjin, Shanghai and Zhejiang.

Mr Yip said the list is by no means exhaustive and banks may still find it difficult to obtain guarantees in areas not covered by it.

"What about places like Xinjiang?" he asked.

He said banks usually approach the trust and investment corporations to act as guarantors because they are more flexible.

Mr Yip said China used to be regarded as a country with low sovereign risk in bank borrowings, earning it a triple-A credit rating by foreign banks.

But this situation might change with the country's new policy that all state-owned corporations be responsible for their own profit-and-loss accounts.

It remains to be seen whether or how far China will come to the rescue of its enterprises and corporations when they run into financial problems.

Turning to the credit squeeze imposed by Beijing, he said it has prompted more Chinese enterprises to borrow funds in Hong Kong.

With the Hong Kong prime rate at six percent, Chinese enterprises are finding Hong Kong a source of cheap funding.

A Chinese finance company said the six percent rate is even lower than that of Bank of China's foreign exchange loans, which are set around eight percent.

CSO: 4020/359

HONG KONG MEDIA ON CHINA

HONG KONG BECOMES SHANGHAI'S LARGEST JOINT VENTURE PARTNER

HK300435 Hong Kong HONG KONG STANDARD (Business STANDARD supplement) in English  
30 Aug 85 p 1

[Article by M.F. Lock]

[Text] Shanghai has signed 23 agreements with overseas investors in the first six months of this year, about 40 percent with Hong Kong companies or those with connections in Hong Kong, totalling US\$211.16 million.

This was disclosed by Mr Zhuang Yulin, deputy director of the Shanghai Municipal Foreign Economic Relations and Trade Commission.

Mr Zhuang is one of the speakers from Shanghai to address a seminar organized jointly by the Chinese Manufacturers' Association of Hong Kong, the Hong Kong Trade Development Council [TDC] and the Shanghai Exhibition Delegation.

Other speakers include Mr Ming Zhicheng, deputy director of the Economic Commission of Shanghai Municipal People's Government, and Mr Bao Jialu, vice chairman of the China Council for the Promotion of International Trade Shanghai Sub-Council.

Since 1978, Shanghai has approved 119 Chinese-foreign joint ventures and business solely owned by foreign capital, with total investment amounting to US \$889.4 million, Mr Zhuang noted.

He said Hong Kong accounted for 70 of the total with investment of US\$322.43 million, thus ranking as Shanghai's largest joint venture partner.

Out of these, 40 are joint enterprises, with total investment of US\$111.27 million, and 30 are cooperative projects, with total investment of US\$211.16 million.

Mr Zhuang noted that the first joint enterprise to be set up in the city--Shanghai United Wooltex Corp--is a joint venture with a Hong Kong investor.

Similarly, the first group of high-rise buildings to have developed in downtown Shanghai, such as the Union Friendship building, and the first joint venture in Minhang, Shanghai Universal Toys Co, are also ventures between Shanghai and Hong Kong.

The formation of the Shanghai/Hong Kong Economic Development Association in Shanghai last November and the Hong Kong/Shanghai Economic Development Association in Hong Kong this February has strengthened not only the form of economic cooperation but also marked the beginning of further cooperation between the two cities, Mr Zhuang added.

In his speech, Mr Ming emphasized Shanghai's importance as an industrial center, noting that the city contributes 10 percent of China's gross industrial output.

He disclosed that at present, different industries in Shanghai are drawing up plans in line with the country's economic development strategy for the next five years.

"China needs to open up further and actively promote economic and technological exchange with the outside world in order to achieve its economic development goals. At this same time, this will serve to maintain the present industrial growth in Shanghai," said Mr Ming, going on to stress the importance of Hong Kong as a "window" for China in maintaining its economic ties with the outside world.

Another speaker at the seminar, Mr Bao Jialu talked about the forthcoming Shanghai Product Exhibition which will be held at the Hong Kong Exhibition Center on September 2-4. He noted that this event would be an appropriate means of sustaining the momentum of cooperation following the TDC's made in Hong Kong '85 exhibition held in Shanghai in May.

Sixty-four industrial companies from Shanghai will show a wide array of exhibits at the exhibition including light industrial products, handicrafts, textile products, electrical appliances, and shipbuilding and aviation products.

There will be 19 Shanghai import and export corporations sending representatives to Hong Kong for the exhibition and about 1,800 companies from Hong Kong and overseas have been invited to attend.

CSO: 4020/359

HONG KONG ECONOMIC TRENDS

HONG KONG AIRLINE DENIED RIGHT TO OPERATE CHARTERED FLIGHTS TO PRC

HK190411 Hong Kong SOUTH CHINA MORNING POST in English 19 Aug 85 p 1

[Excerpts] The fledgling Dragon Airlines (Dragonair) has been refused permission by the Hong Kong aviation authorities to operate charter flights to Beijing and Shanghai.

This puts the decision of the Civil Aviation Department at odds with that of China, which has already granted permission for the airline to begin such services from September 1.

Last night Dragonair's chief executive, Mr Stephen Miller, said of the refusal: "The reasons they (the department) gave us were unreasonable as far as we're concerned."

The chairman of Dragonair, Mr Chao Kuang-piu, rushed back from Australia last night, cutting short a business trip.

Mr Chao will convene an emergency board meeting this morning, after which a more detailed statement will be released.

Dragonair's application to fly scheduled services to eight cities in China is to be heard at the end of next month or early in October.

Until then, their airline had hoped to run charter (nonscheduled) services to Beijing and Shanghai.

Early this month, it received written confirmation from the Civil Aviation Administration of China (CAAC) to fly twice to Beijing and once to Shanghai daily on a nonscheduled basis.

The airline, which so far has one Boeing 737, was granted an air operator's certificate last month.

Dragonair is owned by Hong Kong Macao International Investment, a partnership including such local tycoons as Sir Yue-kong Pao, Sir Kenneth Ping-fan Fung and Mr Li Ka-shing, as well as China-backed institutions.

CSO: 4020/360

END